

# TAX-RELATED IDENTIFY THEFT: AN EPIDEMIC FACING SENIORS AND TAXPAYERS

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## HEARING BEFORE THE SPECIAL COMMITTEE ON AGING UNITED STATES SENATE ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

WASHINGTON, DC

WEDNESDAY, APRIL 10, 2013

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**WEDNESDAY, APRIL 10, 2013**

U.S. SENATE,  
SPECIAL COMMITTEE ON AGING,  
*Washington, DC.*

The Committee met, pursuant to notice, at 2:02 p.m., in Room SD-562, Dirksen Senate Office Building, Hon. Bill Nelson, Chairman of the Committee, presiding.

Present: Senators Nelson, McCaskill, Donnelly, Warren, Collins, and Ayotte.

### **OPENING STATEMENT OF SENATOR BILL NELSON, CHAIRMAN**

The CHAIRMAN. Good afternoon.

Senator Collins will be along in a moment, and she had called and requested that we go ahead.

I want to thank all of you for being here today to discuss an issue that is becoming increasingly apparent especially as we are approaching tax day.

Over the past couple of years, this problem has been exploding across the country. It is highly relevant and prevalent in my State of Florida. Since 2010, our office has received over a thousand complaints from individuals who file their taxes only to be told by the IRS that their refund had already been claimed by someone else.

Now, you can imagine someone files their IRS return and IRS responds, well, your return has already been filed. I must say, as I approached this tax period, I have had that thought several times.

Well, you remember Willie Sutton, and he said the reason he robbed banks was that was where the money is. Well, today's criminals looking for money, they do not need to go stand on the corner and deal drugs. They do not need to use a crowbar, because the laptop has replaced the crowbar.

You will hear from our detective from Tampa how street crime has actually diminished as this new wave of crime is so much easier and where they can sit in their residence with a laptop and rake in thousands and thousands of dollars to the point at which the IRS is estimating that this is over a \$5 billion crime. And, of course, who is it coming from? It is coming from the U.S. Treasury and they are getting the money right from their own home.

So, we are dealing with a new type of criminal. These criminals are gaining access to people's social security numbers. They are getting other personal information and they are filing these fraudulent tax returns in somebody else's name creating a fictitious tax return in order to get a tax refund.

They file electronically, and they have then the tax refund loaded onto a pre-paid debit card without providing the physical address or even without opening a bank account to make it all the more difficult to trace.

Now, you remember last month we talked about the Jamaican lotto scam where they were intimidating seniors into sending them money and we found that these third-party cards, these debit cards, were a preferred way that the fraudsters could get the money sent to them that made it less likely to be traced. The same thing is happening here. So, some crooks steal a few thousand dollars while others steal millions of dollars.

According to the Treasury Inspector General for Tax Administration, we are losing over \$5 billion each year to the crime. Now, the problem is getting worse.

Last year the IRS reported identity theft incidences nearly tripled. That was between 2010 and 2011. The Federal Trade Commission recently reported that the crime is continuing to climb at an astronomical rate eclipsing even identity theft-related credit card fraud as shown in this chart.

Look at 2008 all the way to 2012. Tax related fraud is the red bar. The dark bar is the credit card fraud. So, obviously that is what is happening. We have identified maybe a dozen states where this is more prevalent than others. My State of Florida is certainly one of them.

Now, why is it here? This is the Aging Committee. Because they are preying on the elderly. According to a recent investigation by the Treasury's Inspector General, seniors along with low income people who are not required to file tax returns, students also aged 16 to 22, and deceased individuals are among the most frequent targets of these tax thieves.

Why deceased? I actually had a hearing on this in the Subcommittee that I chaired in the Finance Committee. You may be surprised to find out that when a person dies, their Social Security number is published by the Social Security Administration.

I have tried nine ways to Sunday to get the Commissioner of Social Security to delay putting up in the putting up in the public domain, now, there are certain entities that would have reason to have access. I have tried to say, well, you can have access for those entities that have a legitimate reason to know. But why put it out there so that people can grab a Social Security number and an identity and suddenly file a tax return?

Needless to say, there have been a number of grieving parents who have lost a child that that child's identity is stolen and used for these purposes.

Now, these criminals get more and more organized, our ability to detect and prevent identity theft is lagging behind their ability to get organized.

Now, fortunately, the IRS and the Department of Justice, who we will hear from in the second panel, have recognized the scope of this problem and they have shown a determination in developing new policies to turn the tide on these criminals.

They have formed task forces and information sharing programs to streamline enforcement actions against known fraudsters. Although these are steps in the right direction, there are still many

shortcomings that we need to be addressing, and we are going to address some of those here today.

We have taxpayers like Susan Fox-Greenberg of Parkland, Florida, for example, who had to wait two years to get her \$21,000 refund after falling victim to this scheme. That is two years to get a tax refund. That is not acceptable.

But unfortunately, it is illustrative of what has happened of the long wait victims have had to endure before receiving the refund that they are owed.

We have had some help with the media in getting this out. For some reason, it is concentrated in Tampa, also in Miami. CBS Channel 4, WFOR, has really made this a cause célèbre as they have tried to alert people to what is happening and these kind of instances that our public is getting fleeced and in the process the taxpayer is getting fleeced.

Last year, it took the IRS an average of 196 days to resolve the identity theft cases and the increase in the number of cases has resulted in a backlog of 300,000 cases with an average wait time more than 180 days.

Obviously, you know that many Americans rely on getting that tax refund back so that they can pay their bills; and they should not have to wait six months much less they should not have to wait two years as we have seen some people have to do.

The bottom line is that the IRS is going to be able to better protect and serve taxpayers if we can reduce that time. Victims should not have to go through the mountains of IRS red tape to get their cases resolved or tax records cleaned up.

I want to give credit where credit is due. The IRS has been working on this. You should have heard some of the horror stories that we had to begin with about two years ago when I had that hearing in the Finance Committee.

At a previous hearing on this topic, we heard testimony from several victims including a father who had recently lost his infant daughter, one of the fraudsters stole the baby's Social Security number; from that Social Security death master file, filed a fake return, and that parent then had to deal with the IRS when it rejected his legitimate family tax return that, since it was the previous year had his daughter as a dependent. They should not have to go through this.

So, stories like this are what brings us here today; and it is why we have filed the Theft and Tax Fraud Prevention Act. This legislation includes provisions requiring the IRS to speed up the time that it takes victims to get their refunds. It directs the agency to develop the real-time system for accelerating information matching.

Often the IRS sends a check out the door before it can verify whether the information on the return is correct. I also want to credit the IRS that a couple of years ago the legitimate taxpayers had no way of filing their returns. They said you cannot file a return. It has already been filed, even though it was fraudulent; and once you got that resolved, they needed some way of having security that they were going to be able to file in the future.

We got the IRS and IRS did this. Thank you. Giving them a special personal identification number so that they could deal through that identification in addition to their Social Security.

So, this bill also expands the Identity Protection PIN program, and we have heard from a number of victims that that program has clearly helped.

Now, one example is a lady named Ms. Carson, a 70-year-old grandmother from Aventura. She did not receive a PIN number when her refund was stolen just in 2011. When she called the IRS just last month to ensure that she would not be victimized a second time, she was astonished to find that a fraudulent tax refund had yet again been filed in her name.

Another victim who had trouble receiving a PIN is Marcy Hossli of Lakeworth, and she is here today and she is going to share her story with us.

As we get close to April the 15th, in these final days, it is important to examine how tax-related identity theft continues to be a drain on the U.S. Treasury and a hardship for the innocent victims.

As more and more companies require our personal information in exchange for vital services, it is all the more critical that we raise the standard for information security. And the fact is that until we do a better job of enforcing our privacy laws and helping institutions properly safeguard the personal information of their patrons, this problem is only going to get worse.

That is why we have to do more to contain what is becoming an epidemic. We must help right those who have been wronged and we must enact policies to help prevent this from happening to others.

Senator Collins, I had explained to them that you had said for me to go ahead and we are glad you are here. Your comments please.

#### **OPENING STATEMENT OF SENATOR SUSAN M. COLLINS**

Senator COLLINS. Thank you very much, Mr. Chairman.

First, let me apologize for my late arrival. There was nothing I could do about it. I got here as quickly as I could.

I want to begin by saluting your personal leadership and determination on this issue. You have been the member of Congress who has done more to shine a spotlight on this problem than anyone else, and I am delighted to join you at this hearing today.

Next Monday, April 16, is tax day, the deadline for individual tax returns to be filed. I have a feeling that is not news to anybody in this room. By the close of the day on Monday, the IRS will likely receive more than 146 million individual income tax returns.

Nearly 83 percent of these filers will be eligible for refunds. These refunds are not a gift from the Federal Government. They are the return of funds belonging to taxpayers over withheld from their paychecks last year.

In the coming weeks, millions of American families will be eagerly awaiting these tax refunds, money that they may need to pay off debts or to plug gaps in their family budgets.

But taxpayers are not the only ones eagerly awaiting these refunds. Criminal gangs have figured out that it is far cheaper and easier for them to steal taxpayers' identities and hijack their tax refunds than it is to traffic in drugs, rob banks, or fence stolen property.



The IRS reports that the number of identity theft related tax fraud cases has exploded from approximately 52,000 in 2008 to close to one million in 2012; and these numbers, shocking as they are, probably underestimate the problem.

An analysis by the Treasury Inspector General for Tax Administration suggests another 1.5 million tax returns with the refunds totaling in excess of \$5 billion are being scammed each year.

According to media reports and law enforcement officials, the scam works like this. Identity thieves obtain Social Security numbers and other sensitive personal information from sources like hospitals, schools, or assisted living facilities often by recruiting employees to steal that information.

They then use this information to prepare fraudulent tax returns. The thieves make sure to file early as soon as the tax filing season opens in January to increase the odds that they can get a refund before the real taxpayer sends in his or her return.

The thieves are known to hold what they call “make it rain” parties where they bring stolen laptops to motel rooms with Internet access and work together churning out scores of bank returns. With each refund worth on average \$3500, the money can add up quickly.

Once the thefts file the fraudulent tax returns, the IRS processes them and issues refunds, at times by loading the refund onto a prepaid card like those issued by Green Dot and NetSpend. These cards are like cash and can be used by thefts without identification or other verification.

You may be wondering why the IRS processes these fraudulent returns in the first place. I know I certainly did. The answer is simple. Taxpayers are entitled to file their returns as early as mid January but the IRS does not receive the information it needs to verify a taxpayer’s earnings and withholdings until often the end of March.

Of course, there are other ways the IRS could figure out that it is being scammed. The Inspector General discovered that criminals often use the same physical address for the fraudulent returns they file. For example, in 2010, criminals used the exact same physical address in Lansing, Michigan to file more than 2100 returns and receive \$3.3 million in refunds from these returns. Another address in Chicago, the same address, was used on 765 tax returns producing refunds of more than \$900,000.

This is not a victimless crime. Taxpayers who have refunds hijacked by fraudsters often wait years to get the refunds to which they are entitled. Many are re-victimized year after year as we will hear from one of our witnesses today.

A substantial number become victims of other forms of identity fraud. Worst of all, these victims are often the most vulnerable elderly citizens who earn so little that they are not even required to file a return. The IG estimates that 76,000 low income elderly citizens were victims of tax fraud identity theft in 2010 alone.

Mr. Chairman, you have also indicated that your home state has been hit especially hard. According to the Federal Trade Commission, Florida has the highest per capita rate of reported identity theft complaints in the country.

By that measure, my home State of Maine has been relatively fortunate because we rank 46 for reported identity theft complaints. But I will tell you that that fact provides little solace because the number of tax fraud related complaints has risen dramatically in Maine in recent years in keeping with the national trend; and all of those affected by this fraud, whether they live in Maine or Florida or elsewhere suffer the same way.

Again, Mr. Chairman, I look forward to the testimony of our witnesses and to working with you as we seek to combat this epidemic of identity theft tax fraud.

Thank you.

The CHAIRMAN. Thank you, Senator Collins.

We are first going to hear from Marcy Hossli. She is a victim. And then, we are going to hear from Detective Sal Augeri and he is going to explain to you some of the things that it is almost unbelievable but how street crime has actually gone down as this crime has gone up, and as this crime has gone up, the gross of these criminals has grown larger.

So, you are going through some interesting stuff today.

Ms. Hossli.

#### **STATEMENT OF MARCY HOSSLI, VICTIM OF TAX REFUND FRAUD**

Ms. HOSSLI. Chairman Nelson, Ranking Member Collins and other members of the committee, I am the victim of identity theft through tax fraud three years in a row now.

On March 26, 2012, I received a letter from the IRS informing me that I was a victim. That was the beginning of a long and frustrating journey that continues today.

In recent months, I have finally gotten refunds from my 2010 and 2011 taxes but I am still waiting to get my refund from my 2012 taxes, and I really need the money. I am a cancer survivor. I was diagnosed with Lymphoma in 2005. I had breast cancer surgery last year, and the Lymphoma has returned. I currently owe about \$4000 in medical bills.

The letter that I first received from the IRS informed me that I had been a victim of tax fraud for my 2010 and 2011 taxes. They said red flags were raised because of suspicious claims on the tax return that was submitted in my name. They also told me that it would take three months for them to process my case. I was told to print and mail my 2010 and 2011 tax returns and send some additional items.

The IRS also said they would issue me a six digit PIN number later that year to use on my tax returns for the next three years. I am still waiting for that PIN number.

The IRS also told me to file my case with local police, the Federal Trade Commission, and Equifax. I did all that and more. I called the Palm Beach County Sheriff's Department and filed a report. They told me it just ends up in a file. I asked them about participating in the IRS Law Enforcement Assistance Program, or LEAP, a program that enables local law enforcement to more easily pursue identity theft cases. They had never heard of it. They said they would get back with me after looking into it, but I never heard back.

I had done my own taxes on Turbo Tax for my 2010 and 2011 taxes. But this year I decided to file my taxes with a specialist. I watched him e-file them on February 21st. A day later, the IRS contacted him to tell him that my tax return had already been filed again.

I once again went through the same process as the year before and compiled all of my paperwork. I called the IRS. They told me I should have an alert on my file because there was an identity theft indicator on my 2010 and 2011 tax returns. I asked who it was that filed my taxes in 2011 and 2012 and who let this year's filing slip through. There has to be a record who filed them. She could not tell me.

I later spoke with another woman at the IRS who told me it was my own fault that I had not received my refund and that I should have received a letter in the mail with my caseworker's name on it. When I told her to please reissue the letter because I never received it, she said it could not be reissued.

She was quite angry with me and made me feel stupid and small because she said I was just one of many people dealing with this same problem. I was near tears on the phone.

Finally, a different woman from the IRS reached out and asked me to call her back at "12ish Mountain Time." I could not because I was at work. She said that if she did not hear from me, she would close my case. I spoke with another person in her office and asked for the woman to call me back, and I have never heard anything.

I reached out to the Federal Trade Commission again and the State Attorney's Office. They said there was nothing they could do. I even reached out to the FBI. They told me they do not deal with identity theft-related tax cases.

I reached out to news stations and have been interviewed for stories. I have called members of Congress. Senators Nelson and Rubio have responded to me, and Senator Nelson's office is the first time anyone has legitimately offered any assistance.

I received a letter at the end of March this year from the IRS that they have verified my claim of identity theft for my 2012 taxes, that there is an identity theft indicator on my account, that no further action was needed on my part. But the letter still did not include an identity protection PIN even though I was promised one over a year ago.

I am afraid all of this will happen again next year if I do not get a PIN. I should never have to go through anything like this, nor should anyone else. I feel violated. It is hard to concentrate in work. I am stressed constantly and have had to ask my doctor for help to deal with these problems.

I have no idea how my information got out there. I have spent a lot of time in hospitals due to my health condition. So, it is possible my personal information was obtained there. Because of all this, a stranger knows more about me than my friends and family. I hope you can do something to stop this. Thank you for this opportunity to share my story, and I am happy to answer any questions you may have.

[The prepared statement of Ms. Hossli follows:]

Chairman Nelson, Ranking Member Collins, and other members of the Committee,

I am a victim of identity theft through tax fraud 3 years in a row. On March 26, 2012, I received a letter from the IRS informing me that I was a victim. That was the beginning of a long and frustrating journey that continues today.

In recent months, I have finally gotten the refunds for my 2010 and 2011 taxes. But I am still waiting to get a refund for my 2012 taxes. And I really could use that money. I am a cancer survivor. I was diagnosed with Lymphoma in 2005. I had breast cancer surgery last year and the Lymphoma has returned. I currently owe about \$4000 in medical bills.

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Because of all this, a stranger knows more about me than my friends and family. I hope you can do something to stop this.

Thank you for this opportunity to share my story, and I am happy to answer any questions you may have.

The CHAIRMAN. Well, I hope we can do something about this very sad tale of woe that you have brought to us. I hope we can do something about it today.

In the second panel, we will have the IRS and the Treasury Department; and they have taken note of what you have just said; and at the conclusion of this hearing, I would like to see both Treasury and IRS and you, Ms. Hossli, in the ante room and let us see if we can start trying to solve her problem.

Before you all come up to testify, if you would start e-mailing whoever you need to check on this, I sure would appreciate it.

All right. Now, we have got Detective Sal Augeri. Have I pronounced that right?

Mr. AUGERI. Yes, sir.

The CHAIRMAN. Sal Augeri. He is in the Criminal Intelligence Bureau of the Tampa Police Department. He has been working as one of the IRS's identity theft task forces to go after these criminals. Share with us.

**STATEMENT OF SAL AUGERI, DETECTIVE, CRIMINAL  
INTELLIGENCE BUREAU, TAMPA POLICE DEPARTMENT**

Mr. AUGERI. Mr. Chairman, members of the Committee, good afternoon.

On behalf of the City of Tampa, Mayor Bob Buckhorn and Chief Jane Castor of the Tampa Police Department, I am Detective Sal Augeri and I would like to thank you for inviting me here today to testify before your committee regarding identity theft and specifically Stolen Identity Refund Fraud.

Last March of 2012, I appeared before Senator Nelson to explain how rampant identity theft was in Tampa and the surrounding bay area. We were experiencing a crime wave that was unknowingly funded through hard working taxpaying Americans. "Turbo Tax", as it was commonly known among the criminals, was spreading throughout Tampa, the surrounding counties, and the State of Florida at an alarming rate, that estimates of the dollar loss were into the hundreds of millions, if not billions.

The City of Tampa would later be identified as "Ground Zero" for this crime. Throughout the later part of 2010 and the first half of 2011, law enforcement could not develop a uniform approach to combating the crime, solicit the necessary help of the Internal Revenue Service Criminal Investigations or come to some type of consensus on the prosecution of these cases between the U.S. Attorney's Office and the Hillsborough County State Attorney's Office.

During this time, local and state law enforcement had very little, if any, joint cooperation with enforcement efforts from IRS-CI. As many of us would later learn, disclosure laws protecting the sharing of tax information basically "handcuffed" IRS-CI and therefore the joint sharing of information could not take place.

Due to the many enforcement and prosecution issues, criminals continue to make a large sum of money from tax fraud all in the face of law enforcement. After the successful operation headed by the United States Secret Service in September of 2011, Operation Rainmaker brought the problem to the attention of mainstream America and especially to the residents of Florida.

With that, it also brought the problem that law enforcement was having dealing with this crime to the forefront. Among them, a need to unify efforts between local, state and federal law enforcement officials, the ability to share critical information needed for establishing evidence that was crucial for a successful prosecution and a means to utilize that information for introduction into a state or federal judicial system.

Following the hearings in March of 2012, IRS-CI introduced the new "Waiver Pilot Program" for the Tampa Bay Area. With that came the arrival of Special Agent in Charge, James Robnett and Assistant Special Agent in Charge, Ismael Nevarez.

Significant positive changes began and IRS-CI became the focal point in bringing local, state and federal agencies together to combat this crime. The "Alliance Group" was formed in July of 2012, and it consisted of the Tampa Police Department, Hillsborough County Sheriff's Office, Polk County Sheriff's Office, Pasco County Sheriff's Office, Pinellas and Manatee County Sheriff's Office, the Florida Department of Law Enforcement, the United States Secret Service, FBI, United States Postal Service, the Hillsborough County and Polk County State Attorney's Offices, Office of the State Wide Prosecutor and the U.S. Attorney's Office for the Middle District of Florida.

This collective effort is overseen and coordinated by the Internal Revenue Service-Criminal Investigations. The "Waiver Program" introduced a format that allowed victims to sign an IRS form which would enable local law enforcement authorities to request a copy of the fraudulent return that was submitted and accepted by the IRS.

This information allowed law enforcement to continue with their investigation, obtain critical and vital evidence and subsequently lead to either federal or state charges being brought against the known suspect committing the crime.

In addition, the Department of Justice Tax Division along with IRS-CI streamlined their processes which have resulted in a quicker "turn around" of these financial investigations. With this, the U.S. Attorney's Office has been able to expeditiously bring charges against these suspects and receive a final resolution within the court system.

Recently, the successful federal prosecution of Russell Simmons, a Tampa used car salesman and convicted drug trafficker, highlighted the enormous problems associated with this type of crime. The Simmons investigation began in the early part of 2011, involved a search warrant of his business on August 31, 2011 and his arrest for a state charge of Identity Theft and Credit Card Fraud.

The investigation continued for many months due to the obstacles in place at that time. Federal charges were eventually brought against Simmons and he was indicted in May of 2012. This was a multi-agency effort and it was comprised of the Tampa Police Department, the United States Secret Service and IRS-CI which culminated in Simmons pleading guilty in November of 2012 to identity theft related charges.

The investigation found that prior to his arrest in August 2011, Simmons had attempted to defraud the U.S. Treasury of \$8.9 million and he ultimately received \$1.7 million. Simmons was sen-

tenced on March 18, 2013 to 15 years in federal prison, a sentence which has resonated throughout Tampa and the Bay Area.

Given the close coordination between IRS-CI and the Alliance partners, the Russell Simmons investigation would move much faster today. All identity theft leads are brought to the Alliance Group and there is immediate coordination and sharing of intelligence. Joint investigative actions are taken, resources are shared, evidence is gathered and quick arrests are made.

Our local Crime Stoppers is also part of the effort and tips from Tampa Area citizens go directly to the Alliance members. The Alliance Group concept has resulted in many more prosecutions this year than last year.

Some of the recent prison sentences handed out by the Federal Court of the Middle District of Florida include Remesa Buemer, 65 months prison, Danielle Denson, 76 months prison and most recently, the "guilty" pleas entered by Rashia Wilson and Maurice Larry whose names are synonymous with tax refund fraud.

These cases are a direct reflection of U.S. Attorney Robert O'Neill's office and their commitment to this fight. Chief Castor and the Tampa Police Department are committed to their law enforcement counterparts that comprise the "Alliance Group" and we are part of their recently appointed Task Force Officers assigned to the Internal Revenue Service Criminal Investigations.

I sit here before you as a Deputized IRS Task Force Officer, with expanded jurisdictions, federal authorities and on a daily basis, I work alongside the IRS-CI Special Agents investigating identity theft related tax fraud cases.

Within the Tampa Bay Area, outreach efforts through SAC James Robnett's office with local banks has streamlined the expedient detection and recognition of fraudulent tax refund deposits and the subsequent seizure and return of stolen tax payer money to the U.S. Treasury.

Although this crime is still prevalent and lucrative to the criminals that engage in it, law enforcement efforts have had positive changes. Sources on the street have told me of the increased police effort and that it is more difficult to get returns back from the U.S. Government.

The CHAIRMAN. Detective, we need you to wrap up.

Mr. AUGERI. However, this problem cannot be solved by law enforcement alone. Two other efforts need to be made on the initial filing through the Internal Revenue Service and through parent companies credit card programs, and a second initiative of maintaining and securing personal identification.

I believe our 2013 collected enforcement efforts have never been better and I foresee a continued positive progression with that endeavor.

Thank you.

[The prepared statement of Mr. Augeri follows:]





## CITY OF TAMPA

Bob Buckhorn, Mayor

POLICE DEPARTMENT

Jane Castor  
Chief of Police

The Honorable Bill Nelson  
United States Senate, Chairman  
Senate Special Committee on Aging  
716 Senate Hart Office Building  
Washington, DC 20510

Mr. Chairman  
Members of the Committee

On behalf of the City of Tampa, Mayor Bob Buckhorn and Chief Jane Castor of the Tampa Police Department, I am Detective Sal Augeri and I would like to thank you for inviting me here today to testify before your committee regarding Identity Theft and specifically Stolen Identity Refund Fraud (S.I.R.F.).

Last March of 2012, I appeared before Senator Nelson to explain how rampant identity theft was in Tampa and the surrounding Bay Area. We were experiencing a crime wave that was unknowingly funded through hard working taxpaying Americans. "Turbo Tax", as it was commonly known among the criminals, was spreading throughout Tampa, the surrounding counties and the state of Florida at an alarming rate that estimates of the dollar loss were into the hundreds of millions, if not billions. The City of Tampa would later be identified as "Ground Zero" for this crime. Throughout the later part of 2010 and the first half of 2011, law enforcement could not develop a uniformed approach to combating the crime,

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solicit the necessary help of the Internal Revenue Service - Criminal Investigations (IRS-CI) or come to some type of consensus on the prosecution of these cases between the U.S. Attorney's Office and the Hillsborough County State Attorney's Office. During this time, local and state law enforcement had very little, if any, joint cooperation with enforcement efforts from IRS-CI. As many of us would later learn, disclosure laws protecting the sharing of tax information basically "handcuffed" IRS-CI and therefore the joint sharing of information could not take place.

Due to the many enforcement and prosecution issues, criminals continued to make a large sum of money from tax fraud all in the face of law enforcement.

After the successful operation headed by the United States Secret Service in September of 2011, Operation Rainmaker brought the problem to the attention of mainstream America and especially to the residents of Florida. With that, it also brought the problem that law enforcement was having dealing with this crime to the forefront.

Among them, a need to unify efforts between local, state and federal law enforcement officials, the ability to share critical information needed for establishing evidence that was crucial for a successful prosecution and a means to utilize that information for introduction into a state or federal judicial system.

Following the hearings in March of 2012, IRS-CI introduced the new "Waiver Pilot Program" for the Tampa Bay Area. With that came the arrival of Special Agent in Charge, James Robnett and Assistant Special Agent in Charge, Ismael Nevarez.

Significant positive changes began and IRS-CI became the focal point in bringing local, state and federal agencies together to combat this crime. The "Alliance Group" was formed in July of 2012 consisting of the Tampa Police Department, Hillsborough County Sheriff's Office, Polk County Sheriff's Office, Pasco County Sheriff's Office, Pinellas County Sheriff's Office, Manatee County Sheriff's Office, Florida Department of Law Enforcement, United State's Secret Service, FBI, United States Postal Service, the Hillsborough County and Polk County State

Attorney's Offices, Office of the State Wide Prosecutor and the U.S. Attorney's Office for the Middle District of Florida. This collective effort is overseen and coordinated by the Internal Revenue Service - Criminal Investigations.

The "Waiver Program" introduced a format that allowed victims to sign an IRS form which would enable local law enforcement authorities to request a copy of the fraudulent return that was submitted and accepted by the IRS. This information allowed law enforcement to continue with their investigation, obtain critical and vital evidence and subsequently lead to either federal or state charges being brought against the known suspect committing the crime.

In addition, the Department of Justice - Tax Division (D.O.J.Tax), along with IRS-CI streamlined their processes which have resulted in a quicker "turn around" of these financial investigations. With this, the U.S. Attorney's Office has been able to expeditiously bring charges against these suspects and receive a final resolution within the court system.

Recently, the successful federal prosecution of Russell Simmons, a Tampa used car salesman and convicted drug trafficker, highlighted the enormous problems associated with this type of crime. The Simmons investigation began in the early part of 2011, involved a search warrant of his business on August 31, 2011 and his arrest for a state charge of Identity Theft and Credit Card Fraud. The investigation continued for many months due to the obstacles in place at that time. Federal charges were eventually brought against Simmons and he was indicted in May of 2012. This was a multi-agency effort comprised of the Tampa Police Department, the United States Secret Service and IRS-CI which culminated in Simmons pleading guilty in November of 2012 to identity theft related charges. The investigation found that prior to his arrest in August 2011, Simmons had attempted to defraud the U.S. Treasury of 8.9 million dollars and ultimately received 1.7 million dollars. Simmons was sentenced on March 18, 2013 to fifteen years in federal prison, a sentence which has resonated throughout Tampa and the Bay Area.

Given the close coordination between IRS-CI and the Alliance partners, the Russell Simmons investigation would move much faster today. All identity theft leads are

brought to the Alliance group and there is immediate coordination and sharing of intelligence. Joint investigative actions are taken, resources are shared, evidence is gathered and quick arrests are made. Our local Crime Stoppers is also part of the effort and tips from Tampa Area citizens go directly to the Alliance members. The Alliance Group concept has resulted in many more prosecutions than last year.

Some of the recent prison sentences handed out by the Federal Court of the Middle District of Florida include Remesa Buemer, 65 months prison, Danielle Denson, 76 months prison and most recently, the "guilty" pleas entered by Rashia Wilson and Maurice Larry who's names are synonymous with tax refund fraud.

These cases are a direct reflection of U.S. Attorney Robert O'Neill's office and their commitment to this fight.

Chief Castor and the Tampa Police Department are committed to their law enforcement counterparts that comprise the "Alliance Group" and we are part of the recently appointed Task Force Officers assigned to the Internal Revenue Service - Criminal Investigations. I sit here before you as a Deputized IRS Task Force Officer, with expanded jurisdictions, federal authorities and on a daily basis, work alongside the IRS-CI Special Agents investigating identity theft related tax fraud cases.

Within the Tampa Bay Area, outreach efforts through SAC James Robnett's office with local banks has streamlined the expedient detection and recognition of fraudulent tax refund deposits and the subsequent seizure and return of stolen tax payer money to the U.S. Treasury.

Although this crime is still prevalent and lucrative to the criminals that engage in it, law enforcement efforts have had positive changes. My sources on the street talk of the increased police effort and that it is more difficult to get returns back from the U.S. government. However, this is not a problem that law enforcement can solve on its own. There are at least two other aspects that need addressing.

Efforts to stop the “initial filing” of a fraudulent tax return can be combated through better safeguards by the Internal Revenue Service – Civil whereby the return is stopped at the point of filing through either the IRS itself or through parent companies of electronic tax preparation programs. The IRS has installed filters to better identify false returns before they are processed. While we are seeing some evidence of this working, the issue of Pre-Paid debit cards is still a problem and these Pre-Paid cards are a favorite tool of the criminal. Criminals’ use of Pre-Paid debit cards to receive stolen tax money causes investigators to take more steps during the investigation which increases the time to prosecute the case. A recent arrest made by the Alliance Group found that a local Probation Officer used these cards and would have gotten away with the crime if it had not been for a thorough investigation by a local IRS-CI Special Agent and a Hillsborough County Sheriff’s Department detective. Something has to be done to address Pre-Paid debit cards being used to receive a tax refund.

A second initiative should be to hold companies that maintain records of personal identification information (PII) to a standard that meets the responsibility and obligation of securing that information. Currently, there appears to be no penalty for companies that allow PII to be stolen from their record keeping systems. Without the theft of this information, there is no fuel for this tax crime and other such fraud related activity. Protection of customer information should be a top priority of these companies. Breaches within these companies due to substandard PII safeguards should incur a civil and / or criminal penalty. A majority of the breaches that we see in the Tampa Bay Area are involving companies that have a direct link to the medical profession. With that, our elderly are victimized on a consistent basis.

Senator Nelson, thank you for your continued interest and inquiry into future deterrents that may someday stop this crime completely.

I believe that our collective 2013 enforcement effort involving Stolen Identity Refund Fraud within the Tampa Bay Area has never been better and I foresee a continued positive progression with that endeavor.

Thank you.

Salvatore J. Augeri, Detective

Thank you,

Salvatore J. Augeri, Detective  
Tampa Police Department

The CHAIRMAN. Thank you, Detective Augeri.

I have conferred with Senator Collins and we are going to do something different here. I am going to ask our next two witnesses if you would just pull your chairs up to the table. If our assistant could assist to rearrange the table, Senator Collins and I feel like that the testimony of all would be very helpful here and then I am going to turn to our Committee members first for your questions, and I will just wait until last. All right.

First, we are going to hear Ms. Keneally. She is the Assistant Attorney General for the Tax Division of the United States Department of Justice. Ms. Keneally's division works with the IRS and regional district attorneys to prosecute tax fraud.

Then, we are going to hear from Russell George. He is the Treasury Inspector General for the Tax Administration at the U.S. Department of the Treasury.

The Inspector General has conducted some of the most in-depth research on identity theft related tax fraud bringing to light the cost of the fraud to the federal budget and the shortcomings of IRS in resolving these cases.

As I said earlier, we are arranging to bring the IRS down here so that, Ms. Hossli, we can have a meeting between you and them after this hearing.

So, let me turn first to Ms. Keneally.

**STATEMENT OF THE HONORABLE KATHRYN KENEALLY, ASSISTANT ATTORNEY GENERAL, TAX DIVISION, UNITED STATES DEPARTMENT OF JUSTICE**

Ms. KENEALLY. Chairman Nelson, Ranking Member Collins, and members of the Special Committee, thank you for the opportunity to appear before you this afternoon to discuss the Department of Justice's efforts to combat tax refund fraud arising from identity theft.

Before I address my prepared comments, I would like to confirm that I have sent an e-mail to the Acting Commissioner of the Internal Revenue Service and to his counselor raising Ms. Hossli's issues. We will absolutely follow up with that.

The CHAIRMAN. Thank you very much.

Ms. KENEALLY. The Department greatly appreciates the commitment that the Chairman, the Special Committee, and the staff have brought to this important issue. Combating the illegal use of social security numbers and other personal identification information to file fraudulent tax refund claims is a top priority for both the Division and U.S. Attorneys' Offices across the Nation.

Your efforts to bring attention to this fast-growing and insidious crime will help educate taxpayers about the importance of detecting and reporting identity theft and tax fraud and will send a strong message that their schemes will be detected and prosecuted to the fullest extent of the law.

The Department of Justice's Tax Division, which I have the privilege of leading, has one purpose: to enforce the Nation's tax laws fully, fairly, and consistently, through both criminal and civil litigation.

The Nation-wide reach of the Tax Division's centralized criminal tax enforcement facilitates the government's ability to respond efficiently and forcefully to often-changing patterns of wrongdoing.

The recent explosion in the use of stolen social security numbers and personal identification information to file fraudulent tax refund claims is an example of this type of challenge.

Stolen identity refund fraud has been described fairly well by the Chairman and the Ranking Member in your opening comments. While it can be described fairly simply and straightforwardly, it has been our experience that it is often implemented through complex multi-step and multilevel themes and schemes that cross state lines and span the country.

The low physical risk and high potential for financial gain has made stolen identity refund fraud a crime of choice for drug dealers and gangs.

Too often, the most adorable members of our communities, the elderly and the infirm, have become victims when their identities have been stolen at nursing homes and hospitals.

And as has also been mentioned today, the pain of grieving families has been increased through the use of information taken from public death lists, and Postal workers have been compromised, robbed, and in one instance murdered to gain access to refund checks.

While the IRS will make good on any refund that is due to the taxpayer, as we have heard today, there are unfortunately inevitable burdens while this is sorted out and the victims often feel a profound sense of violation again as we have heard today. Most fundamentally, all honest tax payers are victimized by the loss to the Federal Treasury.

The Department and the IRS have devoted significant resources to address the stolen identity refund fraud. We have successfully prosecuted a large number of cases resulting in lengthy prison sentences and substantial fines and forfeitures.

The first six months of this fiscal year the Tax Division has authorized more than 275 SIRF investigations involving more than 500 suspects across 37 states, the District of Columbia, and Puerto Rico.

In many cases, the SIRF crime was first uncovered by local law enforcement who discover the Treasury checks and debit cards. Recognizing that there are fast-moving law enforcement needs in such cases, the tax division issued Directive 144, which was the result of collaborative efforts among the Tax Division, the Internal Revenue Service, and the U.S. Attorney's Offices.

Directive 144 streamlines the initiation of SIRF tax prosecutions in authorizing U.S. Attorney's Offices to open tax related grand jury investigations in SIRF matters to bring complainants against those involved in SIRF crimes and to obtain seizure warrants for forfeiture of criminally derived proceeds arising from SIRF crimes, steps that require prior authorization from the Tax Division for other tax crimes.

Simultaneous with the issuance of Directive 144, the Tax Division also implemented expedited procedures by which the Tax Division committed to review a request to indict within three calendar days in fast-moving, reactive SIRF cases.



While providing for expedited procedures, Directive 144 serves a second law enforcement purpose, specifically the centralization of knowledge about SIRC crimes through the reporting of information by the U.S. Attorney's Offices to the Division and the IRS.

This enables prosecutors and law enforcement agencies to work together to identify schemes and to pursue the most culpable schemers. It also aids our efforts to give the IRS real-time information so that the IRS can work to stop the crime at the door through improved filters as well as to address the needs of victims quickly and effectively.

The prosecution of SIRC crimes is a national priority; and together with our law enforcement partners, we will continue to look for the most effective ways to bring this conduct to an end and to punish the wrongdoers.

Thank you again for all that you have done and for the opportunity to provide the Department's perspective on this issue, and I look forward to answering any questions you have.

[The prepared statement of Ms. Keneally follows:]



## **Department of Justice**

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**STATEMENT OF**

**KATHRYN KENEALLY  
ASSISTANT ATTORNEY GENERAL  
TAX DIVISION**

**BEFORE THE**

**SPECIAL COMMITTEE ON AGING  
UNITED STATES SENATE**

**FOR A HEARING EXAMINING**

**TAX FRAUD AND IDENTITY THEFT**

**PRESENTED ON**

**APRIL 10, 2013**

**Testimony of Assistant Attorney General Kathryn Keneally  
before the United States Senate Special Committee on Aging  
Wednesday, April 10, 2013  
Washington, D.C.**

Chairman Nelson, Ranking Member Collins, and Members of the Special Committee, thank you for the opportunity to appear before you this afternoon to discuss the Department of Justice's efforts to combat tax refund fraud arising from identity theft.

The Department greatly appreciates the commitment that the Chairman, the Special Committee, and the staff have brought to this important issue. Combatting the illegal use of social security numbers and other personal identification information to file false tax returns seeking fraudulent refunds is a top priority for both the Division and U.S. Attorneys' Offices across the country. Your efforts to bring attention to this fast-growing and insidious crime will help educate taxpayers about the importance of detecting and reporting identity theft and tax fraud, and will send a strong message to those who would commit these crimes that their schemes will be detected and prosecuted to the fullest extent of the law.

The Department of Justice's Tax Division, which I have the privilege of leading, has one purpose: to enforce the nation's tax laws fully, fairly, and consistently, through both criminal and civil litigation. Regulations have vested the responsibility for authorizing almost all grand jury investigations of potential criminal tax violations and prosecutions for tax offenses with the Tax Division.

The nation-wide reach of the Tax Division's centralized criminal tax enforcement serves another important goal: it facilitates the government's ability to respond efficiently and forcefully to often-changing patterns of wrongdoing. The recent explosion in the use of stolen social security numbers and personal identification information to file false tax returns seeking fraudulent refunds is an example of this type of challenge.

Stolen identity refund fraud, or SIRF, can be described all-too-simply as a series of crimes by which criminals steal social security numbers, file tax returns showing a false refund claim, and then have the refunds electronically deposited to a bank account or to prepaid debit cards, or sent to an address where the wrongdoer then can get access to the refunds. Although the offense may be easy to describe, SIRF crimes are often implemented through complex, multi-step and multi-level schemes. SIRF crimes are committed by individuals working alone, by family members working together, and by other groups of people working through established local or nationwide criminal

enterprises. The low physical risk and high potential for financial gain has made stolen identity refund fraud a crime of choice for drug dealers and gangs. Even in cases that involve a single defendant or small group of defendants, the number of incidents and victims can reach into the thousands.

Too often, the most vulnerable members of our communities – the elderly and the infirm – have become victims when their identities have been stolen at nursing homes and hospitals by dishonest employees who are often paid for the information. In other cases, the pain to grieving families has been increased by the use of information taken from public death lists. For the public the risk is clear: SIRD crimes can and do arise in any setting where the lure of fast money puts at risk personal identifying information, including at state agencies, student loan providers, the military, prisons, companies servicing Medicaid programs – the list is growing all too long. On the other end of the scheme, we have witnessed postal workers who have been compromised, robbed, and in one instance, murdered to gain access to the refund checks that had been mailed.

There are real consequences for taxpayers who are the victims of stolen identity refund fraud. It is a common characteristic for identity thieves to file the fraudulent returns early, in an attempt to get ahead of the taxpayer's filing of a correct return. While the IRS will make good on any refund that is due to the taxpayer, there are unfortunately inevitable burdens and delays while this is sorted out, including a profound sense of violation. And most fundamentally, when a stolen identity is used to commit refund fraud, all taxpayers are impacted by the loss to the Federal Treasury.

The Department and the IRS have devoted significant resources to addressing stolen identity refund fraud. Over the past several years, the Department has successfully prosecuted a large number of cases in which stolen identities were used to perpetrate tax fraud, resulting in lengthy prison sentences and substantial fines and forfeitures. Here are just a few examples from the past year of cases successfully prosecuted by the Tax Division and our U.S. Attorney's Office partners.

In May 2012, an Alabama woman, Veronica Dale, was sentenced to 27 years and 10 months in prison, and her co-conspirator, Alchico Grant, was sentenced to 25 years and 10 months in prison, for their roles as leaders of a refund fraud ring. Dale admitted filing over 500 fraudulent returns using the stolen identities of Medicaid beneficiaries, which Dale obtained while employed by a company that serviced Medicaid programs. Each sentence included an order to pay \$2.8 million in restitution.

In June 2012, a Florida man was sentenced to 5 years and 4 months in prison for filing false and fraudulent tax returns using names and Social Security numbers of

recently deceased taxpayers. Several co-conspirators directed at least \$1.7 million in refunds to locations in Florida, and the refund checks were then sent by U.S. mail to co-conspirators in Ohio, who then sold and distributed those checks for negotiation at various businesses and banking institutions.

In November 2012, a Barbados national was sentenced in the Northern District of Illinois to 11 years and 6 months in prison and ordered to pay nearly \$1.7 million in restitution for a scheme in which he filed over 470 false returns, claiming fraudulent refunds in excess of \$120 million, in the names of deceased individuals.

In February of this year, an Alabama woman was sentenced to 12 years in prison and ordered to pay \$1.3 million in restitution. She obtained identities from multiple sources, including state databases, and filed more than 1,000 false tax returns claiming over \$1.7 million in tax refunds. She also established an elaborate network for laundering the refunds through prepaid debit cards.

These crimes are also committed by tax preparers who abuse their special access to taxpayer information to file false returns without their clients' knowledge or consent. In one recent case, a Georgia return preparer used many of his former clients' names and social security numbers to file wholly fraudulent refund claims. His crimes were discovered, and in January of this year, he was sentenced to 5 years in prison.

As these examples illustrate, SIRC crimes are different from the crimes typically faced by the Tax Division. Charges brought in SIRC cases rarely concern the types of issues that must be addressed in virtually all other criminal tax matters, such as whether the return is in fact incorrect under the tax laws or whether the taxpayer acted willfully. Also, notably, SIRC prosecutions are often reactive to exigent circumstances: in many cases, the crime is discovered by local law enforcement officers who come upon a large cache of Treasury checks or debit cards loaded with fraudulent tax refunds.

Recognizing these fast-moving law enforcement needs, the Tax Division recently issued Directive 144, which went into effect on October 1, 2012. Directive 144 delegates to local U.S. Attorneys' Offices the authority to initiate tax-related grand jury investigations in SIRC matters, to charge those involved in SIRC crimes by complaint, and to obtain seizure warrants for forfeiture of criminally-derived proceeds arising from SIRC crimes, without prior authorization from the Tax Division. The Tax Division retains authority in connection with forfeitures if any legitimate taxpayer refunds are involved.

While the Directive still requires the Division's approval for the filing of criminal charges by information or indictment, simultaneous with the issuance of Directive 144, the Tax Division also implemented expedited procedures for such authorizations in reactive cases. In SIRC cases in which an arrest has been made or a criminal complaint has been issued and an indictment deadline is fast-approaching, the Tax Division has committed to review a request to indict within three calendar days.

The challenges posed by SIRC crimes requires strong coordination among and fast responses by all law enforcement, including local sheriffs and police, many federal law enforcement agencies, and prosecutors with U.S. Attorneys' Offices and the Tax Division. Directive 144 and the new expedited review procedures facilitate these goals, while retaining the Tax Division's authority over tax prosecutions.

This retention of authority serves the second purpose of the Directive, specifically, the centralization of knowledge about SIRC crimes. With this centralized knowledge, prosecutors and law enforcement agencies can work together to identify schemes and to pursue the most culpable schemers. In particular, the IRS has dedicated significant resources to identifying patterns of fraudulent filings. It is a top priority for the IRS to stop these crimes at the door, and the Service has worked with diligence and determination to develop strong filters. It is vital that the IRS receive real-time information developed through criminal enforcement to improve its filters, and to support future law enforcement efforts through its fraud detection efforts. It is also of great importance that the IRS obtain as much information as possible so that the needs of victims can be addressed as quickly and effectively as possible. For these reasons, Directive 144 provides that the Tax Division be kept informed at all significant steps in the investigation and prosecution, so that we can coordinate with the IRS as well as with other prosecutors and law enforcement agencies.

Directive 144 was the result of collaborative efforts among the Tax Division, the Internal Revenue Service, and the U.S. Attorneys' Offices to strengthen the law enforcement response to SIRC crimes. As part of the Directive, all U.S. Attorney's Offices designated a SIRC point-of-contact, and in November 2012, within a few weeks after the Directive was issued, we conducted training with presentations by prosecutors and agents experienced in SIRC cases and attended by many of these points-of-contact. We continue to leverage our experience in prosecuting SIRC cases through our close relationships with prosecutors in the U.S. Attorneys' Offices throughout the country.

In the six months since implementation of Directive 144 and the expedited review procedures, the Tax Division has authorized more than 275 SIRC investigations involving more than 500 subjects across 37 states, the District of Columbia, and Puerto Rico.

Although the largest concentration of those matters arose in Florida, a significant number arose in New York, Georgia, Mississippi, Texas, Alabama, New Jersey, Illinois, and Michigan.

The prosecution of SIRC crimes is a national priority, and, together with our law enforcement partners, we will continue to look for the most effective ways to bring this conduct to an end and to punish these wrongdoers.

Thank you again for the opportunity to provide the Department's perspective on this issue, and I look forward to answering any questions that you may have.

The CHAIRMAN. Thank you. All right.

Mr. George, tell us what the IG has done and just avoid repetition of stuff that has already been put before the Committee.

Of course, each of your written statements will be entered into the record.

Please proceed.

**STATEMENT OF HONORABLE J. RUSSELL GEORGE, TREASURY  
INSPECTOR GENERAL FOR TAX ADMINISTRATION, UNITED  
STATES DEPARTMENT OF THE TREASURY**

Mr. GEORGE. Thank you, Mr. Chairman.

Chairman Nelson, Ranking Member Collins, and members of the Committee, again thank you for the invitation to provide my views on the topic of tax-related identity theft.

As the Inspector General for Tax Administration, commonly referred to as TIGTA, I represent an organization dedicated to protecting the integrity of our Nation's \$2 trillion tax system.

The title of this hearing appropriately characterizes the problem as an epidemic confronting all taxpayers and especially senior citizens. As noted, our audits have documented alarming growth in the problem of identity theft tax fraud.

TIGTA has provided ongoing oversight of the issue because of the rapidly growing nature of this tax crime, its consequences for victims, and the need for further improvements in the IRS's handling of identity theft.

As was noted, the number of identity theft cases have continued to rise since 2011. As of December 31 of last year, the IRS identified almost two million identity theft incidents, and it is very likely that the number of identity theft cases will grow during the current filing season.

Last summer, my organization, TIGTA, reported that the impact of identity theft on tax administration is significantly greater than the amount the IRS detects and prevents during the filing season.

Using data available after April 15, my auditors identified an additional one and a half million tax returns that the IRS had not identified, with potentially fraudulent tax refunds, totaling in excess of \$5 billion.

If not addressed, we estimate that the IRS could issue approximately \$21 billion in fraudulent tax refunds resulting from identity theft over the next five years.

Unfortunately, as you pointed out, Senator, and it is so important that I will repeat this, senior citizens are highly vulnerable to identity theft tax fraud. For tax year 2010, as you pointed out, we identified over 76,000 tax returns filed using the identities of older Americans, again, that characteristics of IRS-confirmed identity theft cases. These tax returns resulted in fraudulent tax refunds in excess of \$370 million.

Last year, we evaluated whether the IRS is effectively providing assistance to victims of identity theft. We found that the IRS's procedures are not adequately communicating identity theft policies to taxpayers. Unfortunately, this results in an increased burden for the victims of identity theft which is the last thing a victim of identity theft needs, as evidenced by Ms. Hossli.



As Ms. Hossli described, identity theft takes an enormous financial and emotional toll on its victims. When a taxpayer's identity has been compromised and tax return information falsified, the taxpayer needs immediate assistance. What they want and what they need is an identity theft hotline at the IRS.

Instead, identity theft victims get the equivalent of the run-around when they contact the IRS seeking assistance. Our report found that customer service is highly problematic for identity theft victims.

The audit also found that taxpayers whose identities are stolen receive confusing and conflicting instructions from the IRS and many times delays of, as you pointed out, longer than a year occur to resolve the tax problems resulting in an increased burden for the victims.

The growth in these cases has overwhelmed the IRS's resources and burdened taxpayers. TIGTA has made a number of recommendations to address these issues. The IRS, to its credit, has agreed to many of them, and we will be following up with an audit to evaluate their progress later this year.

Thank you, Chairman Nelson, Ranking Member Collins, members of the Committee. I also look forward to responding to whatever questions you may have on this subject.

[The prepared statement of Mr. George follows:]

**HEARING BEFORE THE  
SPECIAL COMMITTEE ON AGING  
UNITED STATES SENATE**

**“Tax-Related Identity Theft: An Epidemic Facing  
Seniors and Taxpayers”**



**Testimony of  
The Honorable J. Russell George  
Treasury Inspector General for Tax Administration**

**April 10, 2013**

**Washington, D.C.**

TESTIMONY OF  
THE HONORABLE J. RUSSELL GEORGE  
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION  
*before the*  
SPECIAL COMMITTEE ON AGING  
UNITED STATES SENATE

"Tax-Related Identity Theft: An Epidemic Facing Seniors and Taxpayers"

April 10, 2013

Chairman Nelson, Ranking Member Collins, and Members of the Committee, thank you for the invitation to provide testimony on the subject of identity theft and its impact on the Internal Revenue Service (IRS) and taxpayers, including the targeting of our Nation's senior citizens for identity theft. The Treasury Inspector General for Tax Administration (TIGTA) plays a critical role in providing taxpayers with assurance that the approximately 92,500 IRS employees who collect over \$2.1 trillion in tax revenue each year, process over 147 million individual tax returns, and issue approximately \$333 billion in tax refunds, do so in an effective and efficient manner while minimizing the risks of waste, fraud, and abuse.

TIGTA has provided ongoing oversight and testimony on the issue of tax fraud-related identity theft because of the rapidly growing nature of this tax crime and the need for further improvement in the IRS's handling of identity theft. Identity theft and other fraud schemes targeting senior citizens are on the rise. These financial scams have become so prevalent that they are being called the "crime of the 21st century."<sup>1</sup> Sweepstakes and lottery scams, e-mail and phishing scams, and investment scams are among the top ten fraud schemes used by criminals to target seniors.<sup>2</sup> Senior citizens are most likely to have a "nest egg," to own their home, and/or to have excellent credit – all of which make them attractive to con artists.<sup>3</sup> In addition, financial scams often go unreported by senior citizens or can be difficult to prosecute, so they are considered a "low-risk" crime.<sup>4</sup>

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<sup>1</sup> *Top Ten Scams Targeting Seniors*, National Council on Aging, <http://www.ncoa.org/enhance-economic-security/economic-security-Initiative/savvy-saving-seniors/top-10-scams-targeting.html> (last visited Apr. 4, 2013).

<sup>2</sup> *Id.*

<sup>3</sup> *Common Fraud Schemes, Fraud Target: Senior Citizens*, Federal Bureau of Investigation, <http://www.fbi.gov/scams-safety/fraud/seniors> (last visited Apr. 4, 2013).

<sup>4</sup> *Top Ten Scams Targeting Seniors*, National Council on Aging, <http://www.ncoa.org/enhance-economic-security/economic-security-Initiative/savvy-saving-seniors/top-10-scams-targeting.html> (last visited Apr. 4, 2013).

Incidents of identity theft affecting tax administration have continued to rise since Calendar Year (CY) 2011, when the IRS identified more than one million incidents of identity theft. As of December 31, 2012, the IRS identified almost 1.8 million incidents during CY 2012. This figure includes approximately 280,000 incidents in which taxpayers contacted the IRS alleging that they were victims of identity theft,<sup>5</sup> and more than 1.5 million incidents in which the IRS detected potential identity theft.<sup>6</sup> As a result of the delay in the start of this year's filing season, we are unable to determine the extent of identity theft cases this year or compare trends with last year's filing season; however, it is highly likely that incidents of identity theft will show a continued increase when the current filing season is concluded.

Over the past year, my office has issued two reports<sup>7</sup> on the subject of identity theft. Identity theft affects the IRS and tax administration in two ways – with fraudulent tax returns and misreporting of income. Our first report, issued May 3, 2012, addressed the IRS's efforts to assist victims of identity theft, while the second, issued July 19, 2012, dealt with the IRS's efforts to detect and prevent the filing of fraudulent tax returns by identity thieves. My comments today will focus on the results of those reports and on the ongoing work we have underway to assess the IRS's progress on detecting and resolving identity theft issues related to tax administration.

The IRS has described identity theft as the number one tax scam for 2013.<sup>8</sup> Identity theft occurs when someone uses another taxpayer's personal information, such as name, Social Security number (SSN), or other identifying information, without permission, to commit fraud or other crimes. In many cases, an identity thief uses a legitimate taxpayer's identity to fraudulently file a tax return and claim a refund. Unfortunately, senior citizens are not immune from this crime. During our audit,<sup>9</sup> we identified over 76,000 tax returns for Tax Year (TY) 2010 filed using the identities of senior citizens that had characteristics of an IRS-confirmed identity theft case. These tax returns resulted in potentially fraudulent tax refunds totaling over \$374 million. Our

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<sup>5</sup> Taxpayers can be affected by more than one incident of identity theft. The 280,000 incidents affected 233,365 taxpayers.

<sup>6</sup> These 1.5 million incidents affected 985,843 taxpayers.

<sup>7</sup> TIGTA, Ref. No. 2012-40-050, *Most Taxpayers Whose Identities Have Been Stolen to Commit Refund Fraud Do Not Receive Quality Customer Service* (May 2012); TIGTA, Ref. No. 2012-42-080, *There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft* (July 2012).

<sup>8</sup> IRS Press Release, IR-2013-33 (March 26, 2013), available at <http://www.irs.gov/uac/Newsroom/IRS-Releases-the-Dirty-Dozen-Tax-Scams-for-2013>.

<sup>9</sup> TIGTA, Ref. No. 2012-42-080, *There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft* (July 2012).

analysis of TY 2010 returns that we identified as involving identity theft showed that the top five cities for these returns were located in Florida, Georgia, Michigan, and Texas.<sup>10</sup>

In addition, the identities of senior citizens are targets for identity thieves because many are not required to file a tax return. These individuals are often unaware that their identities have been stolen to file fraudulent tax returns. Similarly, the IRS is often unaware that the tax return is fraudulent unless the legitimate taxpayer files a tax return, resulting in a duplicate filing. If these fraudulent refunds are not recovered, taxpayer dollars will be lost.

As we have reported, the total impact of identity theft on tax administration is significantly greater than the amount the IRS detects and prevents, and the IRS is not providing effective assistance to taxpayers who report that they have been victims of identity theft. Although the IRS is continuing to make changes to its processes to increase its ability to detect, prevent, and track fraudulent tax returns and improve assistance to victims of identity theft, there is still work that needs to be done.

One promising development occurred at the end of March 2013, when the IRS announced it was expanding a program designed to help law enforcement obtain tax return data for their investigations and prosecutions of specific cases of identity theft. The IRS initiated this program to assist local law enforcement with arrests and prosecutions related to identity theft. Under a pilot program, which was started in April 2012 in the State of Florida, State and local law enforcement officials who have evidence of identity theft involving fraudulently filed tax returns were able, through a written disclosure consent waiver from the victim, to obtain tax returns filed using the victim's SSN. The pilot was expanded in October 2012 to eight additional States.<sup>11</sup> There was widespread use of this program. Under the pilot, more than 1,560 waiver requests were received by the IRS from over 100 State and local law enforcement agencies in the nine States participating in the pilot. On March 29, 2013, the pilot was expanded to a permanent program that was effective for all 50 States and the District of Columbia.

#### **Detection and Prevention of Identity Theft**

Although it has found an increased number of identity theft incidents, the IRS is still challenged in detecting and preventing them. In July 2012, TIGTA reported that the impact of identity theft on tax administration is significantly greater than the amount the

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<sup>10</sup> Tampa, FL; Miami, FL; Atlanta, GA; Detroit, MI; and Houston, TX.

<sup>11</sup> Alabama, California, Georgia, New Jersey, New York, Oklahoma, Pennsylvania, and Texas.

IRS detects and prevents.<sup>12</sup> Using the characteristics of tax returns that the IRS confirmed as involving identity theft, we analyzed TY 2010 tax returns processed during the 2011 Filing Season and identified 1.5 million undetected tax returns with potentially fraudulent tax refunds totaling approximately \$5.2 billion. If not addressed, we estimate that the IRS could issue approximately \$21 billion in fraudulent tax refunds resulting from identity theft over the next five years.

The primary characteristic of tax returns filed by identity thieves is the reporting of false income and withholding to generate a fraudulent tax refund. Without the falsely reported income, many of the deductions and/or credits used to inflate the fraudulent tax refund could not be claimed on the tax return. As I previously testified, many individuals who are victims of identity theft may be unaware that their identity has been stolen and used to file fraudulent tax returns. These individuals are typically those who are not required to file a tax return. It is not until the legitimate taxpayer files a tax return resulting in a duplicate filing under the same name and SSN that the taxpayer realizes that he or she has become a victim of identity theft.

When the identity thief files the fraudulent tax return, the IRS does not yet know whether the victim's identity will be used more than once. Instances of duplicate tax returns cause the greatest burden to the legitimate taxpayer. Once the legitimate taxpayer files his or her tax return, the duplicate tax return is identified and the refund is held until the IRS can confirm the taxpayer's identity. For TY 2010, we identified more than 48,000 SSNs that were used multiple times, *i.e.*, one or more potentially fraudulent tax returns were associated with the multiple use of an SSN.<sup>13</sup> We estimate that more than \$70 million in potentially fraudulent tax refunds were paid to identity thieves who filed tax returns before the legitimate taxpayers filed theirs.<sup>14</sup> This is in addition to the \$5.2 billion noted previously, which was related to taxpayers who do not appear to have a filing requirement.

Although the IRS is working toward finding ways to determine which tax returns are legitimate, it could do more to prevent identity thieves from electronically filing (e-filing) tax returns. Of the 1.5 million undetected tax returns TIGTA identified, almost 1.4 million (91 percent) were e-filed. Before a tax return can be submitted electronically, the taxpayer must verify his or her identity with either the prior year's tax return Self-Select

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<sup>12</sup> TIGTA, Ref. No. 2012-42-080, *There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft* (July 2012).

<sup>13</sup> This estimate includes only those tax returns filed on tax accounts that contain an Identity Theft Indicator added on or before December 31, 2011. Identity theft indicator codes were developed to centrally track identity theft incidents and are input to the affected taxpayer's account.

<sup>14</sup> This estimate is based only on the duplicate use of the primary SSN.

Personal Identification Number (PIN) or Adjusted Gross Income. However, we determined that this control can be circumvented.

If the taxpayer does not remember the prior year's Self-Select PIN or Adjusted Gross Income, he or she can go to IRS.gov, the IRS's public Internet website, to obtain an Electronic Filing PIN by providing personal information that the IRS matches against data on the prior year's tax return filed by the taxpayer. In the alternative, a taxpayer can call the IRS and follow automated prompts to receive an Electronic Filing PIN. For the 2013 Filing Season, the IRS has required the taxpayer to provide additional personally identifiable information. Nonetheless, it remains a challenge to authenticate taxpayers who call or write to the IRS to request help with their tax account. The IRS has not adopted industry practices of shared secrets, such as security challenge questions, to authenticate taxpayers (e.g., mother's maiden name or name of first pet).

Access to third-party income and withholding information at the time tax returns are processed is the single most important tool the IRS could use to detect and prevent tax fraud-related identity theft resulting from the reporting of false income and withholding. Third-party reporting information would enable the IRS to identify the income as false and prevent the issuance of a fraudulent tax refund. However, most of this information is not available until well after taxpayers begin filing their returns.

Another important tool that could immediately help the IRS prevent tax fraud-related identity theft is the National Directory of New Hires.<sup>15</sup> However, legislation is needed to expand the IRS's authority to access the National Directory of New Hires wage information for use in identifying tax fraud. Currently, the IRS's use of this information is limited by law to just those tax returns that include a claim for the Earned Income Tax Credit. The IRS included a request for expanded access to this information in its annual budget submissions for Fiscal Years (FY) 2010, 2011, 2012, and has once again included this request in its FY 2013 budget submission.

Even with improved identification of tax returns that report false income and withholding, verifying whether the returns are fraudulent will require additional resources. Using IRS estimates, it would cost approximately \$32 million to screen and verify the approximately 1.5 million tax returns that we identified as not having third-party information on income and withholding. However, the IRS can maximize the use of its limited resources by reviewing tax returns with the highest risk for refund fraud.

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<sup>15</sup> A Department of Health and Human Services national database of wage and employment information submitted by Federal agencies and State workforce agencies.

Without the necessary resources, it is unlikely that the IRS will be able to work the entire inventory of potentially fraudulent tax returns it identifies. The IRS will only select those tax returns for which it can verify the identity of the taxpayer and/or the income based on available resources. If the IRS does not have the resources to work the remainder of the potentially fraudulent tax returns it identifies, the refunds will be issued. The net cost of not providing the necessary resources is substantial, given that the potential revenue loss to the Federal Government of these tax fraud-related identity theft cases is billions of dollars annually.

As we reported in July 2008<sup>16</sup> and July 2012, the IRS is not in compliance with direct-deposit regulations that require tax refunds to be deposited into an account only in the name of the individual listed on the tax return. Direct deposit, which now includes debit cards, provides the ability to receive fraudulent tax refunds quickly, without the difficulty of having to negotiate a tax refund paper check. Of the approximately 1.5 million TY 2010 tax returns we identified, 1.2 million (82 percent) involved the use of direct deposit to obtain tax refunds totaling approximately \$4.5 billion. One bank account received 590 direct deposits totaling over \$900,000.

To improve the IRS's conformance with direct-deposit regulations, and to help minimize fraud, TIGTA recommended that the IRS limit the number of tax refunds being sent to the same direct-deposit account. Limiting the number of tax refunds that can be deposited into the same account can minimize losses associated with fraud. While such a limit does not ensure that all direct deposits are made in the name of the filer, it does have the potential to limit the extent of fraud.

We also recommended, and the IRS agreed, that the IRS should coordinate with responsible Federal agencies and banking institutions to develop a process to ensure that tax refunds issued via direct deposit, either to a bank account or to a debit card account, are made only to an account in the taxpayer's name. The IRS indicated that it will initiate discussions with the Department of the Treasury Fiscal Service<sup>17</sup> to revisit this issue and reevaluate the feasibility of imposing such restrictions. Based on its discussions with the Fiscal Service, the IRS will determine whether such restrictions can be effectively implemented.

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<sup>16</sup> TIGTA, Ref. No. 2008-40-182, *Processes Are Not Sufficient to Minimize Fraud and Ensure the Accuracy of Tax Refund Direct Deposits* (Sept. 2008).

<sup>17</sup> Two offices of the Department of the Treasury were merged in FY 2013: The Bureau of the Public Debt and the Financial Management Service. The new office is Fiscal Service. The IRS discussed the direct deposit issue with the former Financial Management Service.



As I mentioned earlier, the IRS has continued to make changes to its processes to increase its ability to detect, prevent, and track fraudulent tax returns and improve assistance to victims of identity theft. As of December 31, 2012, the IRS reports that during CY 2012 it stopped the issuance of \$12.1 billion in potentially fraudulent tax refunds associated with 1.8 million tax returns classified as involving identity theft. This represents a 96 percent increase in the number of fraudulent tax returns identified over the same period last year. While the amount of fraudulent tax refunds the IRS detects and prevents is substantial, it does not know how many identity thieves are filing fictitious tax returns and how much revenue is being lost due to the issuance of fraudulent tax refunds.

In addition, the IRS continues to expand its efforts to identify fraudulent tax returns and prevent the payment of tax refunds by processing all individual tax returns through identity theft screening filters. These filters look for known characteristics of identity theft cases to detect fraudulent tax returns before they are processed and before any tax refunds are issued. For example, beginning in Processing Year 2012 the filters use benefit and withholding information from the Social Security Administration (SSA). This information is used to verify that Social Security benefits and related withholding reported on tax returns match the information reported by the SSA. Overall, this will help prevent the false reporting of Social Security benefits and withholding in an attempt to obtain fraudulent refunds. We identified over 93,000 tax returns in TY 2010 which collectively resulted in the issuance of over \$230 million in fraudulent refunds involving the false reporting of Social Security benefits and withholding. The IRS reports that it identified and confirmed identity theft on over 31,000 tax returns claiming fraudulent Social Security benefits and withholding, and stopped approximately \$169 million in fraudulent tax refunds in Processing Year 2012 using the information provided by SSA. The IRS advised us that for the 2013 Filing Season, the filters have been refined and incorporate criteria based on the latest characteristics of confirmed identity theft tax returns.

In yet another example, the IRS has incorporated an age analysis in its identity theft filters which should help to prevent additional tax fraud-related identity theft. Our analysis of questionable TY 2010 tax returns that appeared to have been filed by an identity thief showed that 2,274 tax returns filed by children under the age of 14 had received approximately \$4 million in refunds. For one refundable tax credit for higher education expenses, we identified 109,618 taxpayers as of May 2, 2012, who received the refundable tax credit totaling more than \$159 million for Tax Year 2011. The

individuals receiving the credit were of an age that is unlikely to be enrolled in a four-year college degree program.<sup>18</sup>

Tax returns detected by these new filters are held during processing until the IRS can verify the taxpayers' identity. IRS employees attempt to contact these individuals and request information to verify that the individual filing the tax return is the legitimate taxpayer. If the IRS cannot confirm the filer's identity, it suspends processing of the tax return to prevent the issuance of a fraudulent tax refund. During our current audit, the IRS advised us that the identity theft filters identified over 324,000 tax returns and enabled the IRS to stop the issuance of approximately \$2.2 billion in fraudulent tax refunds in Calendar Year 2012.

In January 2012, the IRS created the Identity Theft Clearinghouse. The Clearinghouse was created to accept tax fraud-related identity theft leads from the IRS's Criminal Investigation field offices. The Clearinghouse performs research, develops each lead for the field offices, and provides support for ongoing criminal investigations involving identity theft. As of December 31, 2012, the Clearinghouse had received over 2,400 identity theft leads for development. These leads have resulted in the development of 329 identity theft investigations.

The IRS began a pilot program in Processing Year 2011 which makes use of a unique identity theft indicator to lock<sup>19</sup> taxpayers' accounts for which the IRS Master File and SSA data show a date of death. To date, the IRS has locked over 9.9 million tax accounts. These locks will systemically void tax returns filed on an individual's account after he or she is reported as deceased. For the 2013 Filing Season, the IRS indicates that for e-filed tax returns using the SSN of a deceased individual, the return will be rejected from processing. For paper tax returns, the IRS has prevented the issuance of over \$487,000 in fraudulent tax refunds as a result of this program. The IRS does not yet have similar information for e-filed tax returns; however, we are reviewing this in our current audit.

To measure the success of the actions that the IRS took to combat identity theft in CY 2012, we are currently performing the same analysis we performed for TY 2010

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<sup>18</sup> TIGTA, Ref. No. 2012-40-119, *The Majority of Individual Tax Returns Were Processed Timely, but Not All Tax Credits Were Processed Correctly During the 2012 Filing Season* (September 2012).

<sup>19</sup> A specific transaction code used to prevent a taxpayer's identification number (TIN), either a Social Security Number or Individual Taxpayer Identification Number, from being used as the primary or secondary TIN on a current or subsequent year Federal income tax return.

tax returns.<sup>20</sup> Using the characteristics of tax returns that the IRS confirmed as involving identity theft, we are analyzing TY 2011 tax returns processed during the 2012 Filing Season to determine whether we can identify any undetected tax returns with potentially fraudulent refunds resulting from identity theft.

### **IRS Assistance to Victims of Identity Theft**

In May 2012, we reported that the IRS is not effectively providing assistance to taxpayers who report that they have been victims of identity theft, resulting in increased burden for those victims.<sup>21</sup> Moreover, identity theft cases can take more than one year to resolve, and communication between the IRS and victims is limited and confusing. Victims are also asked multiple times to substantiate their identities. Furthermore, during the 2012 Filing Season, identity theft tax returns were not prioritized during the standard tax return filing process. We are currently evaluating the IRS's corrective actions to our May 2012 audit report.<sup>22</sup>

The growth of identity theft poses a considerable challenge to tax administration. In CY 2011, the IRS reported that over 641,000 taxpayers were victims of identity theft. This figure includes taxpayers who contacted the IRS alleging that they were victims. In CY 2012, the IRS identified an additional 1.2 million of these taxpayers.

In FY 2012, the IRS dedicated 400 additional employees to the Accounts Management function<sup>23</sup> to work identity theft cases. As a result, the function now has approximately 2,000 employees working these cases. However, its inventory of identity theft cases has grown almost 50 percent from FY 2011 to 2012. As of March 9, 2013, the Accounts Management function reported that it had over 249,000 identity theft cases in its inventory.

The IRS estimated that its inventory of more than 228,000 identity theft cases that had been carried over from FY 2010 to 2011 would require 287 full-time employees

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<sup>20</sup> TIGTA, Audit No. 201140044, *Effectiveness of the Internal Revenue Service's Efforts to Identify and Prevent Fraudulent Tax Refunds Resulting from Identity Theft* (Follow-Up), report planned for April 2013.

<sup>21</sup> TIGTA, Ref. No. 2012-40-050, *Most Taxpayers Whose Identities Have Been Stolen to Commit Refund Fraud Do Not Receive Quality Customer Service* (May 2012).

<sup>22</sup> TIGTA, Audit No. 201240041, *Effectiveness of Assistance Provided to Victims of Identity Theft* (Follow-Up), report planned for September 2013.

<sup>23</sup> The function that works the majority of identity theft cases involving individual duplicate tax returns.

to resolve.<sup>24</sup> This inventory did not include 500,000 cases that were in the Duplicate Filing inventory,<sup>25</sup> many of which were identity theft cases.

Most identity theft cases are complex and can present considerable challenges throughout the resolution process. For example, it can be difficult to determine who the legitimate taxpayer is or if the case is actually a case of identity theft. Taxpayers sometimes transpose digits in SSNs, but do not respond to IRS requests for information to resolve the case. As a result, the IRS may not be able to determine who the legitimate taxpayer is. With other cases we have reviewed, taxpayers claimed to be victims of identity theft after the IRS had questioned deductions or credits or proposed examination adjustments. There have also been instances in which the SSA has issued the same SSN to more than one taxpayer.<sup>26</sup>

Resources have not been sufficient to work identity theft cases dealing with refund fraud and continue to be a concern. IRS employees who work the majority of identity theft cases are telephone assistants who also respond to taxpayers' calls to the IRS's toll-free telephone lines. TIGTA is concerned that demanding telephone schedules and a large identity theft inventory make it difficult for assistants to prioritize identity theft cases.

Furthermore, telephone assistants are not examiners and are not trained to conduct examinations, which require skills and tools beyond those possessed by the assistants. Instead, assistants are trained to communicate with taxpayers and to know the tax laws and related IRS operational procedures. We recommended that the IRS provide additional training for assistants, to include training on the importance of documenting case actions and histories.

The IRS responded that it has provided improved training to all IRS employees who work identity theft cases. However, as of November 2012, interviews with more than 20 assistants showed that many believed the training was not adequate and that the constant revision of new procedures is creating confusion for the assistant and the taxpayer alike. The IRS has implemented new tools and job aids for the assistants to use when attempting to resolve identity theft cases, such as the Identity Theft Case

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<sup>24</sup> A full-time employee working 40 hours per week for 52 weeks.

<sup>25</sup> A duplicate tax return condition occurs when a tax return posts to a taxpayer's account that already contains a tax return. The duplicate tax return becomes part of an inventory of duplicate tax return cases that require an IRS employee to work and resolve.

<sup>26</sup> Prior to 1961, only a fraction of SSNs were manually screened to determine if an SSN was previously assigned. Thus, issuing duplicate SSNs was possible. Today, automated systems with sophisticated matching routines screen for previously issued SSNs.

Building Guide and the Identity Theft Tracking Indicator Assistant tool. Some assistors stated that they believe these tools have been helpful when working identity theft cases. TIGTA is currently evaluating the actions the IRS has taken in response to our concerns with the training provided to assistors.<sup>27</sup>

The management information system that telephone assistors use to control and work cases can add to the taxpayer's burden. For instance, the IRS may open multiple cases for the same victim, and multiple assistors may work that same victim's identity theft issue. A review of 17 taxpayers' identity theft cases showed that 58 different cases involving those taxpayers had been opened, and multiple assistors had worked their cases. Our audit also found that victims become further frustrated when they are asked numerous times to prove their identities, even though they have previously followed IRS instructions and sent in Identity Theft Affidavits<sup>28</sup> and copies of their identification with their tax returns.

We also found in May 2012<sup>29</sup> that the IRS sends the victims duplicate letters at different times, wasting agency resources and possibly confusing the victims. For example, the IRS sends each taxpayer two different letters advising that the taxpayer's identity theft case has been resolved. Assistors working an identity theft case send one letter to the taxpayer when they have completed actions taken on the case. A second letter is systemically generated two to 12 weeks later advising the taxpayer again that his or her case has been resolved. Neither letter advises when the taxpayer should expect to receive his or her tax refund.

In addition, identity theft case histories are so limited that it is extremely difficult to determine what action has been taken on a case, such as whether research has been completed to determine which individual is the legitimate taxpayer. More specifically, case histories do not note whether the assistor researched addresses, filing or employment histories, *etc.*, for the individuals associated with the cases. This increases the need to spend extra time on these cases if the case is assigned to another assistor and he or she has to repeat the research previously conducted.

When our auditors reviewed a sample of cases, they could not determine if some cases had been resolved or why those cases were still open. In most cases, auditors

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<sup>27</sup> TIGTA, Audit No. 201240041, *Effectiveness of Assistance Provided to Victims of Identity Theft* (Follow-Up), report planned for August 2013.

<sup>28</sup> IRS Form 14039, *Identity Theft Affidavit*.

<sup>29</sup> TIGTA, Ref. No. 2012-40-050, *Most Taxpayers Whose Identities Have Been Stolen to Commit Refund Fraud Do Not Receive Quality Customer Service* (May 2012).

had to reconstruct the cases to determine if all actions had been appropriately taken to resolve them.

Currently, victims are not notified when the IRS receives their tax returns and affidavits reporting suspected identity theft. We recommended that the IRS ensure that taxpayers are notified when the IRS has received their identifying documents and/or it has opened their identity theft cases. The IRS also needs to analyze the letters sent to taxpayers regarding identity theft to ensure that those letters are relevant, provide sufficient information, and are consistent, clear, and complete.

The IRS agreed with these recommendations and began implementing new procedures to notify taxpayers when their documentation is received. The IRS is also reviewing its suite of identity theft letters to determine if the information contained therein is accurate and applicable to the taxpayer's identity theft circumstance. However, these corrective actions are not expected to be fully implemented until September 2013.

Taxpayers could also be further burdened if the address on the tax return filed by the identity thief is false. If the identity thief has changed the address on the tax return, the IRS does not know that the address change is inappropriate and will update its account record for the legitimate taxpayer. For example, many taxpayers do not notify the IRS when they move, but just use their new/current address when they file their tax returns. When the IRS processes a tax return with an address that is different from the one that it has on file, it systemically updates the taxpayer's account with the new address. It does not notify the taxpayer that his or her account has been changed with the new address.

In such cases, while the IRS is in the process of resolving an identity theft case, the identity thief's address becomes the address on the taxpayer's record. Any IRS correspondence or notices unrelated to the identity theft case will be sent to the most recent address on record. As a result, the legitimate taxpayer (the identity theft victim) will be unaware that the IRS is trying to contact him or her.

This situation can also create disclosure issues. For example, if the legitimate taxpayer's prior-year tax return has been selected for an examination, the examination notice will be sent to the address of record – the address the identity thief used on the fraudulent tax return. The identity theft victim is then at risk that his or her personal and tax information will be disclosed to an unauthorized third party (whoever resides at that address). In response to our report, the IRS stated that in January 2012 it expanded its identity theft indicator codes that annotate the taxpayer's account when there is a claim

of identity theft and will explore leveraging these new indicators to suspend certain correspondence. The IRS's corrective actions are not expected to be fully implemented until September 2013.

The IRS has taken steps in FY 2012 to improve assistance for taxpayers who learn that another taxpayer has filed a tax return using his or her identity. For example, the IRS reorganized to establish an Identity Theft Program Specialized Group within each of the business units and/or functions where employees are assigned specifically to work the identity theft portion of the case. It has also revised processes to shorten the time it takes the IRS to work identity theft cases, and has refined codes to better detect and track identity theft workloads.

The IRS reported it has updated tax return processing procedures for the 2013 Filing Season to include a special processing code that recognizes the presence of identity theft documentation on a paper-filed tax return. This will allow certain identity theft victims' tax returns to be forwarded and assigned to an assistor, rather than continuing through the standard duplicate tax return procedures. This should significantly reduce the time a taxpayer must wait to have his or her identity theft case resolved. We are reviewing this process as part of our ongoing audit.

To further assist victims in the filing of their tax returns, the IRS began issuing Identity Protection Personal Identification Numbers (IP PIN) in Fiscal Year 2011 to these individuals. The IP PIN will indicate that the taxpayer has previously provided the IRS with information that validates his or her identity and that the IRS is satisfied that the taxpayer is the valid holder of the SSN. Tax returns that are filed on accounts with an IP PIN that has been correctly entered at the time of filing will be processed as the valid tax return using standard processing procedures, including issuing any refunds, if applicable. A new IP PIN will be issued each year before the start of the new filing season, for as long as the taxpayer remains at risk of identity theft. For the 2012 Filing Season, the IRS sent 252,000 individuals an IP PIN. For the 2013 Filing Season, the IRS reports that it issued 772,000 IP PINs.

Finally, in January 2012, the IRS established a Taxpayer Protection Program to manage work arising from the identity theft indicators and filters used to detect tax returns affected by identity theft – both to stop the identity thief's tax return from being processed and to ensure that the legitimate taxpayer's tax return is processed. However, during the 2012 Filing Season, taxpayers found it difficult to reach employees in this program. The program received approximately 200,000 calls during FY 2012, but was only able to answer about 73,000. The average wait time for taxpayers was 33

minutes. For the 2013 Filing Season, the IRS increased the number of employees answering this program's telephone line from 10 to more than 200 employees.

We are currently evaluating whether the IRS is effectively implementing the corrective actions in response to recommendations made in our prior report to improve assistance to victims of identity theft.<sup>30</sup> As of November 2012, our preliminary review of 16 identity theft cases worked by the Accounts Management function shows that for eight of the 16 cases, the IRS's processes prevented refunds from being issued to the apparent identity thieves.

### **Criminal Investigations of Identity Theft**

Not only does identity theft have a negative impact on the economy, but the damage it causes to its victims can be personally, professionally, and financially devastating. When individuals steal identities and file fraudulent tax returns to obtain fraudulent refunds before the legitimate taxpayers file, the crime is simple tax fraud, which falls within the programmatic responsibility of IRS Criminal Investigation. TIGTA's Office of Investigations focuses its limited resources on investigating identity theft that has any type of IRS employee involvement, the misuse of client information by tax preparers, or the impersonation of the IRS through phishing schemes<sup>31</sup> and other means.

IRS employees are entrusted with the sensitive personal and financial information of taxpayers. Using this information to perpetrate a criminal scheme for personal gain negatively impacts our Nation's voluntary tax system and generates widespread distrust of the IRS. TIGTA aggressively investigates IRS employees involved in identity theft crimes. When the Office of Investigations completes an identity theft investigation, it is referred to the Department of Justice for prosecution.

For example, a former IRS employee was arrested after being charged by a Federal grand jury on June 26, 2012, for aggravated identity theft, mail fraud, unauthorized inspection of tax returns and return information, and unauthorized disclosure of tax returns and return information. She subsequently pled guilty to those

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<sup>30</sup> TIGTA, Audit No. 201240041, *Effectiveness of Assistance Provided to Victims of Identity Theft* (Follow-Up), report planned for June 2013.

<sup>31</sup> Phishing is an attempt by an individual or group to solicit personal and financial information from unsuspecting users in an electronic communication by masquerading as trustworthy entities such as government agencies, popular social web sites, auction sites, online payment processors, or information technology administrators.



charges on August 14, 2012, and was sentenced on March 28, 2013, to 28 months of imprisonment with three years of supervised release.<sup>32</sup>

TIGTA also investigated a tax preparer who stole the personal identifiers of several individuals and unlawfully disclosed the information to others to fraudulently obtain tax refunds. According to the indictment, the subject of the investigation worked as a tax preparer from January 2002 to June 2008. In 2010, he used the personal identifiers of other individuals to file false income tax returns and obtain refunds from the IRS. The preparer obtained most of the personal identifiers in the course of his prior employment as a tax preparer and from other employment positions he held. He disclosed this information to co-conspirators so they could also file false income tax returns and obtain refunds from the IRS. The subject and his co-conspirators ultimately defrauded or attempted to defraud the IRS out of at least \$560,000 in tax refunds.<sup>33</sup>

Identity thieves may also commit identity theft by impersonating IRS employees or misusing the IRS seal to induce unsuspecting taxpayers to disclose their personal identifiers and financial information. One such criminal posed as an IRS "Audit Group Representative" and, according to the indictment, sent letters to various employers demanding that they send him the names, contact information, dates of birth, and SSNs of their employees. He then prepared and filed false Federal tax returns with the IRS in the names of various such employees without their knowledge or consent. The tax returns contained W-2 information, such as income and withholding, that was falsely and fraudulently inflated. The subject of the investigation used the refunds to purchase personal items. The subject pled guilty to false impersonation of an officer and employee of the United States; identity theft; subscribing to false and fraudulent U.S. individual income tax returns; and false, fictitious, or fraudulent claims. He was sentenced to 41 months of imprisonment and three years of supervised release. He was also ordered to pay \$8,716 in restitution.<sup>34</sup>

Finally, TIGTA investigated a phishing scheme in which several individuals were deceived into divulging their personal identifiers and banking information to identity thieves who then defrauded them of over \$1 million. The subject and his co-conspirators operated a scheme to defraud numerous individuals through Internet solicitations, stealing more than \$1 million and the identities of those individuals. The subject of the investigation was sentenced to a total of 30 months of imprisonment and

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<sup>32</sup> E.D. Pa. Arrest Warrant executed July 5, 2012; E.D. Pa. Crim. Indict. filed June 26, 2012; E.D. Pa. Crim. Docket dated Jan. 22, 2013.

<sup>33</sup> S.D. Cal. Superseding Indict. filed June 19, 2012.

<sup>34</sup> S.D.N.Y. Crim. Indict. filed Jan. 25, 2012; S.D.N.Y. Minute Entry filed July 11, 2012; S.D.N.Y. Judgment filed March 25, 2013.

five years of supervised release for Aggravated Identity Theft and Conspiracy to Commit Wire Fraud. He was also ordered to pay \$1,741,822 restitution to his victims.<sup>35</sup>

As I stated earlier, identity theft and other fraud schemes targeting senior citizens are on the rise. Sweepstakes and lottery scams, e-mail and phishing scams, and investment scams are among the top ten fraud schemes used by criminals to target seniors.<sup>36</sup>

While phishing schemes may vary in their technical complexity, many share a common trait: They involve computers located outside the United States. Despite the significant investigative challenge this poses, TIGTA has been successful in working with law enforcement personnel in foreign countries to identify the perpetrators and obtain prosecutions.

TIGTA's Office of Investigations investigated an individual who, along with his co-conspirators, engaged in a fraud scheme that specifically targeted senior citizens. As part of the scheme, a co-conspirator would send e-mails to victims representing that he was an attorney or foreign government official who was responsible for distributing an inheritance. The e-mails sent to the unsuspecting victims falsely informed them that they owed additional taxes to the IRS, or had inherited millions of dollars but needed to pay processing fees to release the funds. When the victims responded to the e-mails, the subject of the investigation, or one of his co-conspirators, contacted them by telephone and e-mail pretending to be someone who could assist them in obtaining the promised inheritance. The victims were led to believe that these contacts were from legitimate business people, and were deceived into paying fees in advance of receiving the inheritance. However, the funds were never used to pay any fees, nor were any inheritance payments made to the victims. The subject of this investigation pled guilty to an indictment charging him with 15 counts of wire fraud and is awaiting sentencing.<sup>37</sup>

In addition, in February 2013, the IRS announced the results of a nationwide effort with the Department of Justice and local U.S. Attorneys offices targeting identity theft suspects in 32 States and Puerto Rico, which involved 215 cities and surrounding

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<sup>35</sup> E.D.N.Y. Response to Defendant's Sentencing Letter filed Dec. 19, 2011; E.D.N.Y. Judgment filed Aug. 9, 2012.

<sup>36</sup> *Top Ten Scams Targeting Seniors*, National Council on Aging, <http://www.ncoa.org/enhance-economic-security/economic-security-Initiative/savvy-saving-seniors/top-10-scams-targeting.html> (last visited Apr. 4, 2013).

<sup>37</sup> C.D. Cal. Opposition to Defendant's Ex Parte Application to Continuance of Trial Date filed June 6, 2012; C.D. Cal. Indict. filed Oct. 21, 2009; C.D. Cal. Crim. Complaint filed Aug. 3, 2009; C.D. Cal. Crim. Minutes Change of Plea filed July 31, 2012.

areas. This joint effort involved 734 enforcement actions related to identity theft and refund fraud, including indictments, informations, complaints, and arrests.

In conclusion, the IRS has undertaken important steps and initiatives to prevent the occurrence of identity theft and associated tax fraud. It has made some progress in addressing the rapidly growing challenge of identity theft. Nevertheless, we at TIGTA remain concerned about the ever-increasing growth of identity theft and its impact on victims of identity theft and on the Nation's system of tax administration. Notwithstanding the current budgetary challenges which will result in reduced audits and investigations, we plan to provide continuing audit coverage of the IRS's efforts to prevent tax fraud-related identity theft and provide effective assistance to those taxpayers who have been victimized. In addition, we will continue to conduct vigorous criminal investigations of identity theft violations involving IRS employees, tax return preparers, and individuals impersonating the IRS.

Chairman Nelson, Ranking Member Collins, and Members of the Committee, thank you for the opportunity to update you on our work on this critical tax administration issue and to share my views.



**J. Russell George**  
**Treasury Inspector General for Tax**  
**Administration**

Following his nomination by President George W. Bush, the United States Senate confirmed J. Russell George in November 2004, as the Treasury Inspector General for Tax Administration. Prior to assuming this role, Mr. George served as the Inspector General of the Corporation for National and Community Service, having been nominated to that position by President Bush and confirmed by the Senate in 2002.

A native of New York City, where he attended public schools, including Brooklyn Technical High School, Mr. George received his Bachelor of Arts degree from Howard University in Washington, DC, and his Doctorate of Jurisprudence from Harvard University's School of Law in Cambridge, MA. After receiving his law degree, he returned to New York and served as a prosecutor in the Queens County District Attorney's Office.

Following his work as a prosecutor, Mr. George joined the Counsel's Office in the White House Office of Management and Budget where he was Assistant General Counsel. In that capacity, he provided legal guidance on issues concerning presidential and executive branch authority. He was next invited to join the White House Staff as the Associate Director for Policy in the Office of National Service. It was there that he implemented the legislation establishing the Commission for National and Community Service, the precursor to the Corporation for National and Community Service. He then returned to New York and practiced law at Kramer, Levin, Naftalis, Nessen, Kamin & Frankel.

In 1995, Mr. George returned to Washington and joined the staff of the Committee on Government Reform and Oversight and served as the Staff Director and Chief Counsel of the Government Management, Information and Technology subcommittee (later renamed the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations), chaired by Representative Stephen Horn. There he directed a staff that conducted over 200 hearings on legislative and oversight issues pertaining to Federal Government management practices, including procurement policies, the disposition of government-controlled information, the performance of chief financial officers and inspectors general, and the Government's use of technology. He continued in that position until his appointment by President Bush in 2002.

In addition to his duties as the Inspector General for Tax Administration, Mr. George serves as a member of the Recovery Accountability and Transparency Board, a non-partisan, non-political agency created by the American Recovery and Reinvestment Act of 2009 to provide unprecedented transparency and to detect and prevent fraud, waste, and mismanagement of Recovery funds. There, he serves as chairman of the Recovery.gov committee, which oversees the dissemination of accurate and timely data about Recovery funds.

Mr. George also serves as a member of the Integrity Committee of the Council of Inspectors General for Integrity and Efficiency (CIGIE). CIGIE is an independent entity within the executive branch statutorily established by the Inspector General Act, as amended, to address integrity, economy, and effectiveness issues that transcend individual Government agencies; and increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce in the offices of the Inspectors General. The CIGIE Integrity committee serves as an independent review and investigative mechanism for allegations of wrongdoing brought against Inspectors General.

The CHAIRMAN. Okay. There you have it. Senator Collins and I want the members of the Committee to get into it.

Senator Collins

Senator COLLINS. Thank you, Mr. Chairman. It is typically gracious of you to allow us to go first.

Ms. Hossli, I listened to your testimony with a sense of disbelief and outrage not only have you been scammed repeatedly, I think three years in a row counting this year, and I see you are nodding yes. But the treatment that you received from the IRS is so disturbing and unacceptable as you sought help.

Can you give us any idea of how many different IRS employees you have talked to as you tried to get help over the last three years?

Ms. HOSSLI. Dozens.

Senator COLLINS. Literally dozens. I guess am outraged by that, and it speaks to the point that Mr. George just made about there being a need for some sort of central hotline or clearinghouse where you could go.

The PIN program that has been described that IRS has implemented is intended to protect people like you who have been victimized repeatedly. Have you received a PIN number yet?

Ms. HOSSLI. No, ma'am.

Senator COLLINS. No. So, despite the fact that you have had your refund which you desperately need to help pay your medical bills, you have had this happen three times, you still have not received your PIN number, is that accurate?

Ms. HOSSLI. No, ma'am. That is correct.

Senator COLLINS. Mr. George, I just do not understand what is going on at IRS and I hope that you can help us understand. I know that the National Taxpayer Advocate has been concerned that the IRS is moving away from a previous effort to centralize customer service in response to identity theft cases like the one that Ms. Hossli as described; and now, it apparently is going to create units in 21 different places. Is that accurate?

Mr. GEORGE. That is accurate in terms of the number of various divisions within the IRS that had a role or still have a role to play in identity theft. To its credit, the IRS has attempted to consolidate their activity as it relates to identity theft so that an individual can go to a single office within the IRS. But in this current economic environment, Senator, they have to make some tough choices.

Senator COLLINS. Well, it seems to me this is a perfect example where consolidation makes sense. You ought to be able to bring the existing resources that you have in 21 different units together in one unit so that each person who calls would deal with knowledgeable people, not get different answers, not be told to call back at 12-ish mountain time and nobody answers.

Would that not help to consolidate?

Mr. GEORGE. There is no question about that, and my office will be conducting a review of this activity.

Senator COLLINS. Thank you.

Ms. Keneally, I understand that the Tax Division has issued a directive, number 144—you referred to it, the detective has referred to it—to address stolen identity refund fraud.

It is supposed to improve coordination between the Tax Division and the U.S. Attorney Offices all over the country. That is a positive development without a doubt.

But I guess what I do not understand is given the number of hearings that Senator Nelson has held and given the fact that the National Taxpayer Advocate has identified identity theft as one of IRS's most serious problems, six times since 2004, why did it take so long for the Justice Department to issue this directive and to delegate more authority in this area?

Ms. KENEALLY. Senator Collins, thank you for that question.

I may not be able to answer that question. I was sworn in to a year ago and we issued the directive in September. At the time that I arrived, there were active discussions between the IRS and prosecutors in my office as to how to address this issue; and as far as I know, we moved as quickly as we could and as collaboratively as we could to address this issue.

The directive in many ways reflects how we were handling these cases. In any case, it formalized it and put structure around what we were doing because this was a fast-growing and fast-moving crime. It is my understanding that the Tax Division and the U.S. Attorney's Offices were responding quickly.

Senator COLLINS. Well, I hope that you really make this a priority.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Warren.

Senator WARREN. Thank you very much, Mr. Chairman, and thank you for your persistent and aggressive leadership in this area. Thank you and Ranking Member Collins for holding this important hearing today.

I also want to thank Ms. Hossli for coming up. I know this is difficult telling your story, how much we all appreciate your being here and trying to prevent this from happening to other people. Thank you very much for being here today.

Detective Augeri, I wanted to ask you a question. It sounds like from what you are describing in Tampa that basically it was really hard to get anything together. You have got a coordinated effort and a coordinated effort was much more effective. In other words, smarter policing. And, I offer my congratulations on that.

But there was another aspect that you mentioned in your testimony that I want to ask about and that is the importance of information from victims and from residents in the area. Can you just say something more about how important that is to your ongoing investigations?

Mr. AUGERI. The biggest problems that we are experiencing right now is the fact that Personal Identification Information, PII, is being sold in such large quantities that is fueling this crime.

It does not appear to have any safeguards in place for these companies that are responsible for protecting this information because the people that are dealing this information it is just like they are dealing cash because that has a dollar value, a name, a social, a date of birth. Without that abundance of information out there, this crime gets dramatically reduced along with all kinds of other fraud activity.

Senator WARREN. And you hear about these when people call you or call the task force with their own cases like Ms. Hossli's of identity theft?

Mr. AUGERI. When we get those complaints, obviously they are a victim of their own information being stolen. What we are seeing from the enforcement side is the interdiction part where arrests are made and these quantities of personal identification information are seized, and these people have access to this information through typically medical connections.

Senator WARREN. Thank you. The reason I asked about individuals, I actually got some data on this that 150 million calls were made to the IRS last year and only 68 percent were answered. Ten million letters were received by the IRS but one million received no answer from anyone.

And, the taxpayer protection program received 200,000 identity theft calls but only 73,000 of those calls were answered, about a third of the calls actually had someone who answered them which means the information about identity theft is clearly not fully in the system.

So, I am just concerned about this and I want to put that, when I look at the Chairman's chart, to think about how much bigger it might be if we had full information here.

Ms. KENEALLY. I wanted to ask you a question. It is my understanding that for every dollar spent in tax fraud enforcement that the return to either the U.S. Government or to the taxpayer is \$4, is that right?

Ms. KENEALLY. Thank you for that question. If you look at the numbers of the Tax Division's collections and money saved in defending against refund claims over the last five years that number averages 14 to 1.

Senator WARREN. Sorry. So, I had the wrong number. I will stand corrected.

Ms. KENEALLY. And that is without considering our criminal enforcement which we really cannot want to quantify in dollars.

Senator WARREN. That is right. And it is not considering the heartbreak that someone like Ms. Hossli goes through when her identity is stolen.

Ms. KENEALLY. Which is what drives us.

Senator WARREN. Yes. So, I think about this in the context of sequestration, that right now we are furling workers, halting research, taking children out of head start. The sequestration costs \$85 billion this year. The IRS estimates, as I understand it, that there is about \$400 billion left on the table that is not collected, money that is fraud or deceit in other ways, about 21 billion of that I think the estimate is through identity theft.

So, here is my question. The IRS is facing an 8 percent cut in its budget. Can you just say something briefly, I am about to run out of time here, about whether the sequestration is making it harder for the IRS to recover money for the American taxpayers and for Ms. Hossli?

Ms. KENEALLY. Senator, thank you for that question. I know on this issue in particular this morning I saw in today's tax press that the Acting Commissioner said that he will not cut resources on the identity theft issue.



I think there is no doubt the IRS and all of law enforcement will need to make some difficult decisions. The Attorney General has stated that we will need to make difficult law enforcement decisions in the Department of Justice, and I am certain the IRS will be facing the same decisions. We will continue to make identity theft a priority.

Senator WARREN. I appreciate that you make identity theft a priority; but as we think through this question of how we fund our government, and we are leaving \$400 billion on the table every year in tax fraud, the idea of cutting enforcement for the IRS just seems to me not to be serious about collecting the money we need to run the government.

So, the next time I hear that the government is broke I will ask that you get the money you need to enforce our laws. Thank you.

Ms. KENEALLY. Thank you, Senator.

The CHAIRMAN. Senator McCaskill.

Senator MCCASKILL. Thank you, Senator Nelson. Thank you all for being here.

I want to first share of what I know. You will be diplomatic about this, detective; but having been a local prosecutor for many years, nothing is more frustrating than when you have a red-hot crime and you hear from the Feds, sorry, we cannot share because of blah blah blah blah blah.

And it is always a good different reason as to why we cannot share blah blah blah blah. But I know in this instance sharing is pretty important because for a while you were stymied by the notion that you were unable to get information because the IRS said that it was private taxpayer information.

Now, you got them to acknowledge a waiver program, and we get waivers all the time in our Senate offices to help people with various problems they have with Social Security or veterans benefits. We get waivers so we can act on their behalf.

Do you sense now, and maybe the Inspector General can speak to this, is the acknowledgment that a waiver by the taxpayer that is the victim, that that is sufficient to get the Criminal Investigation Division of IRS outcome neutral and fully engaged in going after this?

Mr. GEORGE. Yes, Senator, that is the case. We take particular pride in helping Congress and helping the IRS get through Congress authorization to share information initially as it related to prisoners. You may recall from a few years ago we did work which uncovered again an epidemic of people who were incarcerated filing false tax returns and receiving tax refunds.

As a result of that, the IRS instituted a pilot, starting with Florida, which expanded to eight other States, and now it is throughout the entire Nation. So, as a result of that, additional information is being shared with law enforcement agencies.

Title 26, Section 6103 puts criminal penalties on me as well as the members of Congress, with the exception of the Chairman of Finance, Ways and Means, and a couple of other Committees, on how taxpayer information can be used with the caveat that you are exactly right, if a taxpayer allows someone other than themselves to have access to that information, it is permissible.

Senator MCCASKILL. Right. The waiver is very important. Well, I am glad that it is now no longer on a pilot basis and it is all over the country so we can get the cooperation needed.

Well, now the IRS has an obligation that clearly they are not meeting and they should not be a crime that is only identified by people like poor Ms. Hossli coming forward. This needs to be a crime that is identified through systems.

When you have, it is my understanding that we had, in one instance we had, how many thousands of checks were sent to one address in Michigan? Two thousand paper refunds sent to one address.

Could you explain—I am disappointed, and I want to help you, Mr. Chairman, get the IRS here. I do not know why the IRS is not here. They need to be here. It is inexcusable that they are not here, and I hate to blame the Inspector General for this.

But how in the world can there not be a system in place that the IRS would catch? They were sending 2000 refund checks to one address.

Mr. GEORGE. Senator, once again, we actually take credit because we identified that problem, that is, Treasury Inspector General for Tax Administration. In their defense, the Internal Revenue Service needs a statutory fix in order to limit, at our request, our recommendation, the number of returns that are issued to the same bank account, debit account, what have you.

Senator MCCASKILL. No. You have got to be kidding.

Mr. GEORGE. Well, they do and—

Senator MCCASKILL. No. Wait, wait. You are telling me that there needs to be a statute to tell the IRS that they need to get their criminal investigation involved if they are sending 2000 refund checks to one address?

Mr. GEORGE. Well, not, the criminal, no, they can investigate.

Senator MCCASKILL. Well, that is what I am saying. I mean, it would be a little bit like if I was running a store and all of a sudden I realize that half my shelves were empty, would I have to wait for somebody to do an inventory to tell me I have a problem?

I mean, if somebody is stealing stuff, it seems to me that when the IRS sees, they should have some kind of system check that went 2000 checks are going to one address that they would go, huh, do you think somebody is ripping us off? Do you think we maybe ought to check that address and see what is going on?

Mr. GEORGE. Senator, that is a very logical reaction; but again, and I am not going to defend the IRS, but when I had discussions with my own staff about this very situation, I raised the possibility, well, could these be accountants, could this be an H&R Block and in effect having an escrow account for clients, and is this a possibility? And while I have been told for the most part that is not the case, but that was one of the considerations.

Senator MCCASKILL. But do you not think, I mean, frankly I think if you called the local police department in Lansing, I bet if the IRS Criminal Investigation Division called you, detective, and said, you know, we have got an address that we have sent 2000 checks to. Could you help us out?

I guarantee you the local detective would go, yeah, we will check it out. And, do you know what they would do? They would go over

there, they would scope it out, they would do a little investigation, they would figure out what was going on, and lo and behold, you know what they would do? They would catch a criminal.

Mr. GEORGE. And fortunately, again as a result of our work, that has occurred.

Senator McCASKILL. So, now when there is 2000 checks going to one address, does it trigger some kind of work by the criminal investigations division?

Mr. GEORGE. It should, but again, they have limited resources, Senator, I do not know exactly how they allocate their resources and make the determination.

The IRS has a tolerance level as does the U.S. Attorney's Office. Again, they are dealing with hundreds of millions of tax returns a year, trillions of dollars a year, and they——

Senator McCASKILL. Yes, but there are basic systems that could be put in place that would trigger basic questions being asked and it would not be, especially in this age of technology, it would not be an onerous requirements and we will continue to follow up on this. I really appreciate the Chairman. If I were the IRS, I would be embarrassed about this.

Thank you, Mr. Chairman

The CHAIRMAN. The IRS is going to have a chance to explain all of this as they did two years ago in a Subcommittee that I chaired in Finance. That is going to be another hearing coming up on 16th of April in the Finance Committee, which has jurisdiction over the IRS.

One of the issues in front of the Committee at that time will be the legislation that is filed that I would encourage the members of the Committee to sponsor, and I am very proud of this Committee just by what you have seen. We have got a bunch of bulldogs on this Committee which is, it is just a privilege to be a part of it with you all.

Senator Donnelly.

Senator DONNELLY. Thank you, Mr. Chairman.

To follow up on what my colleague was talking about, and, Ms. Hossli, thank you for being here. Detective, thank you for your hard work and thank you to the other witnesses.

I am not a software expert but it would seem to me that, you know, this would be something having 2100 go to the same address that it would clearly collect that there is a problem and that a simple software feature could detect that immediately to Mr. George or to Ms. Keneally.

Am I heading down the wrong road with that?

Mr. GEORGE. We first recommended in 2008 that the IRS limit the number of refunds that they submit to the same account. They indicated that in some instances it was legitimate. Again, and I will have to allow them to speak for themselves to explain that justification.

They have instituted filters, in effect software, an algorithm, to help determine when things are suspect. They are aware of the problem, but it is a growing problem.

This is the problem of the 21st century, Senator, and it is not limited to the United States. It is an international problem. So, they need cooperation from nations all over the world. As you

know, in this environment there are nations that are not going to cooperate with us.

Senator DONNELLY. Do you know, and again to Ms. Keneally or to Mr. George, is there some kind of feature that can make it so that the IRS knows it is, in fact, this person who sent the return whether it is a PIN number as Ms. Hossli was talking about, a simple feature like that, a 10-, 11-, 12-digit PIN number or a mix of numbers and alphabetical letters to know that, if I file my return in April, somebody with the appropriate number, is there a way to do that?

Mr. GEORGE. Is there a way? Yes.

Senator DONNELLY. Okay.

Mr. GEORGE. But the absurdity, Senator, of all of this is the IRS has to rely on information provided by the taxpayer. So, if a criminal takes over the identity of an honest taxpayer, especially someone who does not have a filing requirement—

Senator DONNELLY. And they would really need to know would be the Social Security number and the address?

Mr. GEORGE. But the irony is the criminal can change the address so that the IRS communicates with the criminal and not with the legitimate taxpayer.

Senator DONNELLY. So, if all you have is a Social Security number and a person's name, you can file a tax return for that?

Mr. GEORGE. That is correct. And you do not actually even need a Social Security Number. The IRS issues what is called an ITIN, an Individual Taxpayer Identification Number. This is for people who do not have Social Security Numbers and yet have a tax filing obligation.

Senator DONNELLY. And the whole idea is to try to be the first in the door?

Mr. GEORGE. Exactly, which was pointed out by the Chairman earlier. Yes.

Senator DONNELLY. Detective, is this something that—you indicated Tampa is ground zero. Is this something that in Tampa different groups work together with each other in coordination that, hey, this is the system we have used. It has really worked well to get us additional funds; and then another group uses it? And has it become, in effect, almost a learning center for the entire country or do they coordinate, these groups?

Mr. AUGERI. They do coordinate. They network. If there are submissions that are being sent and being rejected, once a new scheme is set up, they kind of share that information so they can get the submission accepted by the IRS.

Senator DONNELLY. Ms. Keneally, is there any screen or system that you have that can determine that that return is, in fact, from that taxpayer when it comes in?

Ms. KENEALLY. Senator, I am with the Department of Justice and we prosecute after the crime occurs.

Senator DONNELLY. Yes.

Ms. KENEALLY. I do know that we make every effort to make sure that the IRS gets the information that we have. When we are prosecuting these cases and we have a list of victims, we make sure that the IRS has that information to tag those accounts.

I will reiterate. The IRS is working constantly on its filters. We try to get them the information they need concerning the patterns that we are seeing and they have their own fraud development centers on patterns.

We make every effort to try to prevent what happened to Ms. Hossli that if someone is the victim in one year that everything is tagged so they will not be a victim in future years.

Senator DONNELLY. Mr. George, do you know of any way that the IRS can verify this return, in fact, came from that taxpayer?

Mr. GEORGE. There are a number of ways that it can be done, sir, but if I may again just jump to something that the IRS itself has requested for years, and we at TIGTA have recommended, if the IRS were able to gain access to what is called the National Directory of New Hires, which is maintained by the Department of Health and Human Services, which in effect is a very complete index of individuals who start or at least claim to have started new jobs. If the IRS were able to compare the information about who claims to have a job with the information that is subsequently submitted to it in terms of what amount of money they are supposedly earning and the like, that matching of information would significantly assist the IRS in addressing this type of problem.

Senator DONNELLY. I want to thank the entire panel. Thank you for your attendance here, and thank you, Mr. Chairman.

The CHAIRMAN. Any of you who have any follow up, I am going to wrap up here pretty quick and I just point out to the Inspector General that, as you share with IRS and I will certainly do this in the hearing coming up on tax day, middle of April, that many companies always verify a change of address; and so, since the fraudster can just say, well, change my address to a new address and the IRS is not verifying that, then it just lends all the more to this opportunity.

When you add to that what we heard in the Jamaican scam where they can send it to one of these cards, a debit card, then that just makes it all the more difficult to locate and to identify the fraudster.

And this is where the Tampa Police Department has done such a great job. First of all, they had to go through all of this and work it with the IRS to get a waiver so that poor victim could say I waived my rights, you can share my personal tax information with the police department so they can go catch the bad guy. And that is the way they have been able to get it.

And as you said, Mr. George, this first thing started in the prisons and again it happens for some reason in Florida and it was prisoners in the State prison system that were filing false tax refunds and getting the money. And they are in prison.

And so, what they did was they got the waiver from the victims and they pretty well snuffed that out in the prisons. Now, we have got to snuff it out here.

Senator Collins

Senator COLLINS. Thank you, Mr. Chairman, for holding this hearing as it is absolutely outrageous.

I agree with your comments, with Senator McCaskill's point about that the IRS ought to be embarrassed that sending out thousands of refunds to the same address and that is not caught, that

a victim like Ms. Hossli cannot get a PIN number to protect her and has to deal with dozens of people at IRS, none of whom really help you, that just outrages me.

An issue also that we also need to look at is the use of the Social Security number on Medicare cards that are then available to all sorts of healthcare providers. I know that for years we have been told it is too expensive to convert but certainly from hence forward we could stop using the Social Security number on Medicare cards.

I just think there is so much that can be done and I really applaud you for your leadership on this and look forward to working with you and our other committee members.

Thank you.

The CHAIRMAN. Senator McCaskill, Senator Donnelly.

Ms. HOSSLI. Senator, may I?

The CHAIRMAN. Yes, ma'am.

Ms. HOSSLI. I just wanted to say that I did contact the Attorney General's Office as well and they said that there was nothing that they could do. I have a question.

Why is it that every doctor's office you walk into the first thing they ask you for is your Social Security number. Why is that not part of HIPAA laws?

Your Social Security number is your identity. It is your sole and nobody should have access to that number.

The CHAIRMAN. I think that is a very legitimate question and we are asked as citizens to give our Social Security number in cases over and over that it is not required because it is just another invitation out there that someone is going to steal your identity.

Now, Ms. Hossli, if you would come with me after the meeting, we are going to get you with the IRS and we are going to see if we can get your problems solved. No one should have to go through what you have gone through.

And I just want to thank the witnesses. You have been excellent. I want to thank our Committee members. Your participation is just extraordinary.

Thank you and the meeting is adjourned.

[Whereupon, at 3:27 p.m., the Committee adjourned.]

## **APPENDIX**

Bill Nelson's Opening Remarks  
Senate Special Committee on Aging  
April 10, 2010

Good afternoon, everyone. Thank you for being here today as we discuss a very important issue—tax related identity theft.

Over the past couple of years, this problem has been exploding across the nation, and is highly prevalent in my state of Florida. Since 2010, my office has received over a thousand complaints from individuals who filed their taxes only to be told by the IRS that their refund had already been claimed by someone else!

When the infamous Willie Sutton was asked why he robbed banks he reportedly said, “Because that is where the money is.” Well, today’s criminals no longer need to risk their lives and limbs to rob the corner bank, and why would they, when they can rob the biggest bank of all—the U.S. Treasury—from the comfort of their own home?



Today, we are dealing with a new kind of criminal—crooks without crowbars. These criminals are gaining access to people's social security numbers—and other personal information—and filing fraudulent tax returns in someone else's name to obtain their refund.

The fraudsters file electronically, and can have the tax refund loaded onto a prepaid debit card without providing a physical address or even opening a bank account.

Some crooks steal a few thousand dollars, while others steal millions. According to the Treasury Inspector General for Tax Administration, we are losing over five billion dollars each year to this crime. And, the problem is getting worse.

Last year, the IRS reported identity theft incidents nearly tripled between 2010 and 2011. And the Federal Trade Commission recently reported that the crime is continuing to climb at an astronomical rate, eclipsing even identity theft-related credit card fraud, as shown in this chart.

What's more, these crooks are preying on the elderly. According to a recent investigation by the Treasury's inspector general, seniors, along with low-income people who aren't required to file tax returns, students ages 16 to 22, and deceased individuals are among the most frequent targets of these tax thieves.

Regrettably, as these criminals get more and more organized, our ability to detect and prevent identity theft-related tax fraud is lagging behind.

Fortunately, the IRS and the Department of Justice have recognized the scope of this problem and have shown determination in developing new policies to turn the tide on these criminals. They've formed task forces and information sharing programs to streamline enforcement actions against known fraudsters. And although these are steps in the right direction, there are still many shortcomings that need to be addressed.

We have taxpayers like Susan Fox-Greenberg of Parkland, FL who had to wait two years to get her \$21,000 refund after falling victim to this scheme. Two years! This is unacceptable, but unfortunately it's illustrative of the long wait times victims have had to endure before receiving the refund they're owed.

Last year, it took the IRS an average of 196 days to resolve identity theft cases and the increase in the number of cases has resulted in a backlog of 300,000 cases with an average wait time of more than 180 days.

Many Americans rely on their tax refund to meet their basic needs, and they shouldn't have to wait an excessively long amount of time before receiving a refund because someone stole their identity. It only adds insult to injury. The bottom line is: the IRS should be able to better protect and serve taxpayers.

Victims should not have to go through mountains of IRS red tape to get their cases resolved or tax records cleaned up. Presently, more than 20 different units of the IRS can be involved in a single identity theft case, creating a bureaucratic nightmare for taxpayers.

At a previous hearing on this topic, we heard testimony from several victims, including a father who had recently lost his infant daughter to SIDS. A fraudster stole the baby's Social Security number, most likely from the Social Security Death Master File, and filed a fake tax return. This poor, grieving parent then had to deal with the IRS when the agency rejected his tax return, which included his daughter as a dependent. No one should have to go through that.

Stories like these are why I have been actively involved in this issue, and have filed the Identity Theft and Tax Fraud Prevention Act.

This legislation includes provisions requiring the IRS to speed up the time it takes victims to get their refunds, and directs the agency to develop a real-time system for accelerating information matching. Often times, the IRS sends a check out the door before it can verify whether the information on a return is correct.

The bill also expands the identity protection PIN program. My office has heard from several victims who went through the process of clearing their name, only to be victimized again the following year because they were not given a PIN.

Dava Carson, a 70-year-old grandmother from Aventura, Florida, did not receive a PIN when her refund was stolen in 2011, and when she called the IRS just last month to ensure that she would not be victimized a second time, she was astonished to find that a fraudulent tax refund had yet again been filed in her name.

Another victim who had trouble receiving a PIN is Marcy Hossli of Lake Worth, Florida. And she is here today to share her story with us.

As taxpayers head into the final days of this year's deadline for returns, it is important to examine how tax-related identity theft continues to be a drain on the Treasury and a hardship for the innocent victims who have had their identities stolen and misused.

And, as more and more companies require our personal information in exchange for vital services, it is critical that we raise the standard for information security. The fact is: until we do a better job of enforcing our privacy laws and helping institutions properly safeguard the personal information of their patrons, this problem will only get worse.

That's why we have to do more to contain this epidemic. We must help right those who have been wronged and we must enact policies to help prevent this from happening to others.

With that, I now turn to Senator Collins for her opening remarks.



UNITED STATES SENATOR  
**SUSAN M. COLLINS**

PRESS RELEASE



For Immediate Release  
April 10, 2013

Contact: Kevin Kelley or Jeremy Kirkpatrick  
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**Opening Statement  
Senator Susan M. Collins  
Special Committee on Aging**

**“Tax-Related Identity Theft: An Epidemic Facing Seniors and Taxpayers”**

**April 10, 2013**

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Mr. Chairman, next Monday, April 16th, is “Tax Day”—the deadline for individual income tax returns to be filed. By the close of business Monday, the IRS will likely receive more than 146 million individual income tax returns, nearly 83 percent of which will be eligible for refunds.

These refunds are not a gift from the federal government – they are the return of funds belonging to taxpayers, over-withheld from their paychecks last year. In the coming weeks, millions of American families will be eagerly awaiting these tax refunds, money they may need to pay off debts and plug gaps in the family budget.

But taxpayers are not the only ones eagerly awaiting these refunds. Criminal gangs have figured out that it is cheaper and easier for them to steal taxpayers’ identities and hijack their tax refunds than it is to traffic in drugs, rob banks, and fence stolen property.

The Internal Revenue Service reports that the number of identity theft-related tax fraud cases has exploded from approximately 52 thousand in 2008 to close to one million in 2012. And these numbers, shocking as they are, probably underestimate the problem. An analysis by the Treasury Inspector General for Tax Administration suggests another 1.5 million tax returns – with refunds totaling in excess of \$5 billion – are being scammed each year.

According to media reports and law enforcement officials, the scam works like this: identity thieves obtain Social Security numbers and other sensitive personal information from sources like hospitals, schools, or assisted living facilities, often by recruiting employees to steal that information. They then use this information to prepare fraudulent tax returns.



The thieves make sure to file early, as soon as the tax filing season opens in January, to increase the odds they can get a refund before the real taxpayer sends in his or her return. The thieves are known to hold what they call “make it rain parties,” where they bring stolen laptops to a motel room with internet access, and work together churning-out scores of fake returns. With each refund worth on average \$3,500, the money can add up quickly.

Once the thieves file the fraudulent tax return, the IRS processes it and issues a refund, at times by loading the refund onto a prepaid card like those issued by GreenDot and NetSpend. These cards are like cash, and can be used by thieves without ID or other verification.

You may be wondering why the IRS processes these fraudulent refunds in the first place. I certainly did. The answer is simple: Taxpayers are entitled to file their returns as early as mid-January, but the IRS does not receive the information it needs to verify a taxpayer’s earnings and withholdings until the end of March.

Of course, there are other ways the IRS could figure out it is being scammed. The Inspector General discovered that criminals often use the same physical address for the fraudulent returns they file. For example, in 2010, criminals used the exact same physical address in Lansing, Michigan, to file 2,137 returns, and received \$3.3 million in “refunds” for these returns. Another address, in Chicago, Illinois, was used on 765 tax returns, which produced “refunds” of more than \$900 thousand.

This is not a victimless crime. Taxpayers who have their refunds hijacked by fraudsters often wait years to get the refunds to which they are entitled. Many are re-victimized year after year, as we will hear from one of the witnesses today. A substantial number become victims of other forms of identity fraud.

Worst of all, these victims are often the most-vulnerable: elderly citizens who earn so little they are not even required to file a tax return. The IG estimates that 76 thousand low-income elderly citizens were victims of tax-fraud identity theft in 2010 alone.

Mr. Chairman, you have been a leader in bringing the nation’s attention to this problem. And your home state has been especially hard-hit by it. According to the Federal Trade Commission, Florida had the highest per capita rate of reported identity theft complaints in the country in 2012.

By that measure Maine has been relatively fortunate, ranking 46th for reported identity theft complaints. But that fact provides little solace – the number of tax-fraud related complaints has risen dramatically in Maine in recent years, in keeping with the national trend.

Mr. Chairman, thank you for calling this important hearing. I look forward to the testimony of our witnesses, and to working together with you to combat the epidemic of identity-theft tax fraud.

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**Statement of Colleen M. Kelley**  
**National President**  
**National Treasury Employees Union**

**On**

**“Impact of Recent Budget Cuts and Sequestration on the  
Internal Revenue Service Efforts to Combat Identity Theft”**

Submitted to

**Senate Special Committee on Aging**

**April 10, 2013**

Chairman Nelson, Ranking Member Collins and distinguished members of the Committee, I would like to thank you for allowing me to provide comments on the impact that recent budget cuts and sequestration have had on IRS efforts to combat identity theft. As President of the National Treasury Employees Union (NTEU), I have the honor of representing over 150,000 federal workers in 31 agencies, including the men and women at the IRS.

Mr. Chairman, NTEU believes that the best way to combat the rising incidence of tax-related identity theft is to ensure that the IRS is provided with sufficient resources. Unfortunately, despite the critical role it plays in combating identity theft, as well as assisting taxpayers and generating revenue to fund the federal government, the IRS' ability to continue doing so has been severely challenged due to reduced funding in recent years and the cuts mandated by sequestration.

Since FY 2011, the IRS budget has been reduced by almost \$1 billion due to a cut of \$305 million for FY 2012 and over \$600 million under sequestration. These cuts have led to an ongoing hiring freeze at the IRS for the past several years and have strained its capacity to carry out its important taxpayer service and enforcement missions. In addition, the cuts mandated by sequestration will force the IRS to furlough all of its employees for between 5 and 7 days.

### **Impact on Taxpayer Identity Theft Assistance**

According to the IRS, the sequester cuts to operating expenses and furloughs of IRS employees will result in the inability of millions of taxpayers, including those impacted by identity theft, to get answers from IRS call centers and taxpayer assistance centers and will significantly delay IRS responses to taxpayer letters. The IRS previously announced the cuts would force it to complete fewer tax return reviews and would reduce its capacity to detect and prevent fraud, resulting in an inability to collect and protect billions of dollars in revenue annually.

These devastating cuts come at a time when the IRS workforce is already facing a dramatically increasing workload with staffing levels down by 10,000 from two years ago, and more than 20 percent below what they were just 15 years ago. In 1995, the IRS had a staff of 114,064 to administer the tax law, while today they have just 90,500 to administer a much more complicated tax code and growing number of taxpayers.

In the past few years, many experts in the tax community, including the IRS Oversight Board, IRS Advisory Council and the National Taxpayer Advocate have all warned of the dangers of underfunding the IRS. In her 2012 annual report to Congress, Taxpayer Advocate Nina Olson identified chronic underfunding of the IRS as one of the top problems facing the agency, noting the reductions to the IRS budget over the past two years and additional cuts under sequestration. The report noted that a lack of sufficient resources, coupled with a rising workload and increasingly complex tax code, was negatively impacting IRS' ability to carry out its numerous critical taxpayer assistance responsibilities, including assisting those impacted by identity theft, and assist efforts to reduce the federal deficit.

In particular, her report noted that limited resources impede the agency's ability to

conduct education and outreach to taxpayers, particularly small business, and to enforce tax laws, all contributing to a growing gap between taxes owed and taxes paid. For example, she said, staffing levels at Taxpayer Assistance Centers (TACs) across the country were woefully inadequate, with taxpayers lining up to enter IRS offices well before those offices were even open and with some people being turned away. Inadequate staffing and availability of service at TACs has long been a problem at the IRS and has previously been highlighted by the National Taxpayer Advocate as a serious problem disproportionately impacting the most vulnerable populations who use TACs most often, including the elderly that are often the target of identity theft scams.

Olson noted the problems were not confined to the 398 TACs. The agency's ability to answer phone calls on a timely basis and to answer letters has also been sharply impeded. Olson noted that in FY 2012, the IRS was able to answer only 68 percent of the calls it received, with callers having to wait an average of 17 minutes on hold. In 2004, by contrast, the agency was able to answer 87 percent of all calls and the average wait time was 2 ½ minutes. The longer wait times directly impact the IRS' ability to provide victims of tax-related identity theft with the timely assistance that they need.

Despite the adverse impact that recent budget cuts that have had on the IRS, it has continued to make progress in combating identity theft. With the prevalence of identity theft increasing across the U.S. and the world, the IRS made investigating identity theft a top priority in FY 2012 via a four pronged strategy, which included providing guidance and support in assisting victims, including providing Identity Protection Personal Identification Numbers (IPPIN) to over 250,000 taxpayers; initiating civil and criminal recourse against perpetrators resulting in 939 criminal charges related to identity theft, and creation of an Identity Theft Clearinghouse to refer identity theft refund fraud schemes for investigation; stopping or recovering refunds obtained through identity theft; and preventing fraudulent activity, including \$1.85 billion in fraudulent refunds due to identity theft protection filters and indicators. While IRS has made progress on this issue, they can do more, but only if they are provided the necessary resources.

### **Impact on Efforts to Reduce the Federal Deficit**

In addition to the adverse impact on taxpayer services and to assisting those that are the target of identity theft, the Taxpayer Advocate also noted that the lack of adequate resources was undermining IRS' ability to effectively implement its enforcement and compliance initiatives, hampering its ability to maximize revenue collection and close the tax gap. Because of the IRS' unique role in generating some 93 percent of federal revenue, Olson urged Congress to view providing sufficient resources for the IRS as an investment rather than an expense.

IRS' ability to generate critical revenue necessary to reduce the federal deficit is clear. In FY 2012, on a budget of \$11.8 billion, the IRS collected \$2.52 trillion, roughly 93 percent of federal government receipts. This means that, for every \$1 that Congress appropriated for the IRS, the IRS collected about \$214 in return.

However, reductions in enforcement funding in FY '11 and FY '12 have undermined IRS' ability to maximize taxpayer compliance and bring in much needed federal revenue. In FY